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Thesis

~~AN ANALYSIS OF~~
# THE INTERNATIONAL MONETARY FUND AND ITS BACKGROUND

by

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# I INTRODUCTION

World War II sharpened the focus of the United Nations on the precarious state at which national economies had arrived in the 30's and, by contrast, provided the world with an example of the kind of international teamwork possible. The latter was particularly noticeable in the introduction of a new means of financing much of the war: The concept of Allied payment according to comparative sacrifice evolved as it became apparent that numerous nations could not otherwise survive. In addition, Allied cooperation resulted in the creation of permanent international organizations set up for the purpose of consultation and collaboration in spheres remote from military considerations.

The world faces, broadly speaking, two extremes in future international economic relations. It can return to and probably intensify the restrictive practices in foreign trade and finance which slowed down world trade in the 30's. Or it can, in theory at least, attempt to retrace its steps to an era similar to that preceding World War I, when all nations shared in a prosperity based largely on free market conditions.

Technological advance in the production of goods in which a nation has greatest advantage may call for increasing specialization, making available to her surpluses to exchange for foreign commodities and services. Where this is the most economic means of production, one might support it without further reflection. However, certain realities must

be taken into account.

The world economy has undergone basic economic changes since the period when it operated along relatively unimpeded multilateral lines. The past four decades have seen much shifting of economic strength among nations--the rise of the United States, for example, from debtor to leading creditor, accompanied by the growing prestige of the American dollar--and the substitution of managed currencies for the gold standard. Significant changes have occurred along political lines. An intensification of nationalism and a wide ideological split among countries has necessitated that they increasingly take national security into account. This has led to a tendency toward greater self-sufficiency in spite of some of its uneconomic aspects.

Over the years, as countries have suffered major internal crises, there has evolved a new social concept of the responsibility of a government to its nationals in providing reasonably stable political and economic conditions to encourage full employment and increase economic security. In business crises, governments are looked to for emergency measures until revival sets in.

Although the world faces two extremes with respect to international economic relations, the only plausible solution seems to lie somewhere between the commercial and monetary freedom of economic liberalism and a state of commercial and monetary control reflecting the influence of governmental

supervision and direction. Under present conditions, some governmental interference, whether on a national or international level, is essential. The recent war has spread such destruction that many countries who were struggling as debtor areas even before the war could not, unaided, finance equipment and supplies essential for relief and reconstruction. In addition to a legacy of unsolved pre-war economic difficulties, these countries are now saddled with widespread devastation, disruption of productive facilities, a shortage of labor, exhaustion of physical and monetary resources, and inflation.

No easy or new solution to these problems exists. The mere extension of credits would add to the present burden of deficit countries, even if other governments or private investors were willing to accept the risk.

For practical reasons alone, however, the prevailing widespread economic disorder cannot be ignored. Poverty in areas which normally figure to an important extent in foreign trade both reduces the markets of more prosperous areas and, through the dissatisfaction which arises from a lowered standard of living, provides a powerful incentive on the part of individuals to seek relief at the hands of demagogues.

The United States, with its greatly expanded productive capacity could, as it did following World War I, again attempt to rescue countries from economic desolation through investments and loans. However, as the 20's taught, this would be only a temporary expedient, and the ultimate barrier to eventual

collapse is an attack on the fundamental causes of disequilibrium. Awareness of this prompted the leadership of the American Government in the creation of organizations to combat on an intergovernmental level those economic and monetary problems having world-wide repercussions.

During the interwar period, inability of deficit countries to overcome the transfer problem--inability to obtain necessary foreign exchange to correct maladjustments in their balance of international payments--constituted a major obstacle to a high degree of world trade and resulted in widespread default. In order to overcome this obstacle, under free market conditions, it was necessary that countries be sufficiently productive and that their goods and services be in sufficient demand at prices which would enable their payments to foreign countries in the long run to balance with their foreign receipts. The basic changes which the world economy had undergone, especially the expansion of certain types of production, which offset the pre-war complementary relationship among countries, and the addition of heavy debts and reparations occasioned by the war caused deficit countries to depreciate their currencies in order to better their competitive position. The competitive depreciation which followed weakened their financial position still further. With the discontinuation of American credits at the end of the 20's and the impact of the subsequent depression, widespread defaults were followed by internal measures restricting commercial transactions, as countries

made an effort to minimize imports, maximize exports and control currency movements to prevent the outward flight of capital which would further weaken their internal credit structure. High tariff rates protected domestic producers in creditor and debtor countries alike.

At the outset of World War II, all countries had intensified their policies of internal restrictions and joined trading blocs whose members were bound to each other by a network of bilateral trading agreements and discriminations against outsiders. An exception was the United States which, with the passage of the Reciprocal Trade Agreements Act of 1934, had begun to reverse her previous policy of strong protectionism.

An outgrowth of the determination on the part of numerous countries to attack the causes of disorder in the world economy accentuated by the war and to create an atmosphere conducive to a high degree of international economic activity along multilateral lines has been the establishment of two permanent international fiscal bodies. The purposes of these organizations, the International Monetary Fund and the International Bank for Reconstruction and Development, are, respectively, to make available to members a pool of foreign exchange to settle unfavorable balances in their current transaction account, allowing time to correct basic maladjustments in their economic structure, while maintaining exchange rate stability and promoting a gradual relaxation of exchange

restrictions, and to provide to members productive long-term credits under favorable terms for reconstruction and development and for stabilization. Concurrently, steps are being taken to set up a third world agency, whose purpose would be the relaxation and, in some instances, abolition of restrictive commercial practices.

The United States and other signatories to the Bretton Woods Articles of Agreement, recognizing that peace and prosperity cannot exist indefinitely in a world rife with economic disorder, and that relatively free international trade is a means of encouraging full employment, internal prosperity and "progress," have embarked on an experiment to help ensure these benefits. In order to get a better understanding of this program, it is necessary to review in greater detail the events which preceded it.

## II FINANCIAL HISTORY THROUGH WORLD WAR I

Prior to the 19th century, international trade was limited to the exchange of a few commodities. The majority of these were of high value, since transportation had not reached a point where it was profitable to carry bulky, less valuable items for long distances. The industrial revolution, which is commonly dated at the end of the 18th century, heralded the era of mechanized mass production, a type of production which was not profitable unless it entailed the sale of a volume of goods exceeding domestic demand. A search for new markets was on. These quickly developed within Europe, in the American and other colonies and in South America.

In the 19th century, the population of industrial countries grew disproportionately to the domestic food supply, strengthening the dependence of industrial areas on agricultural producers, while population movements to less-developed areas created a still greater demand for manufactured goods. Further expansion in mechanized production caused greater demand for raw materials and foodstuffs. The spiral seemed endless. Correspondingly, there was an increase in short-term loans and investments, put chiefly to productive purposes. These were financed in large part by the principal creditors of the day, England, France, Belgium, Switzerland and the Netherlands. Markets for products, services, and capital were ever-present, encouraged by transportation improvements and having the result

of broadening the variety and quantity of exportable goods.

Development in the United States was mainly agricultural at first. Farm exports served as a means of financing industrial imports and large European loans for improvement of transportation facilities and industrialization. In the last quarter of the 19th century, immigration was heavy and agriculture lost its importance to industrial production. The character of the American balance of payments was changing: by the end of the 19th century, the United States was beginning to make substantial investments abroad. European countries were also becoming increasingly industrialized and, with growing specialization, intensified trade took place among them. England served as banker for a world profitably occupied with the production and international exchange of commodities and services.

The gold standard became the monetary system of most of Europe, the United States, Japan, Australia, and a number of South American countries. In these areas gold was coined in unlimited quantities at a fixed mint price. Provision for its free circulation and for the unlimited redemption of other circulating media stabilized exchange rates and equalized price levels and interest rates. The gold standard was workable at this time partially or superficially because the international economic system was based on the division of labor and free movement of goods, services, and labor, and the complementary arrangement between different types of producers

resulted in a fairly even distribution of gold. Passive central banking policy and internal conditions of expansion permitted a country with a strain on its balance of payments to export gold and allowed the domestic economy to bear the brunt of the deflationary effects that followed. The ensuing fall in prices, and higher interest rates caused by the loss of gold, tended to favor the deficit country's export position and attract short-term funds, which supplied her with the necessary foreign exchange. The credit structure of the gold-receiving country, in turn, yielded to inflationary pressures and, as prices rose, the country's exports declined and its imports increased until, with the introduction of deflationary pressures, a new equilibrium was established. In this manner, the external and internal financial positions of countries were tied to each other, and gold - serving as a balancing item in the settlement of international acounts - was primarily an instrument, not a commodity, of commerce. More serious maladjustments called for loans, which during this period were mainly for industrial development and yielded high returns.

Although, there was some protectionism throughout this period, particularly in the United States, it did not figure prominantly in world trade relations.

Beginning with the introduction of its first tariff system in 1816, the United States pursued an increasingly comprehensive protectionist policy for well over a century. This was possible because she had a domestic market for most of her

industrial production, and there was ample foreign demand for agricultural surpluses. As the United States began to feel the competition of other countries, she altered her policies somewhat. In 1890, Congress provided for the inclusion in trade treaties of most-favored-nation clauses in return for equivalent concessions.1/

At about the same time, Europe, which had up to then pursued a relatively free trade policy, through long-term treaties with the most-favored-nation clause, began to abandon its liberal trade policies. This change was inspired partly by the growing competition encountered by French and German peasants with their high-cost, intensively cultivated, small-scale farms from the low-cost extensive producers in the United States, Siberia and Argentina. Protection spread to industrial producers. Seafaring nations, however, kept their tariffs low. Up to 1914, the fact that European tariff rates were moderate and of long standing prevented drastic adjustments, and prices remained fairly stable. Another stabilizing factor was the drafting of 10-year treaties to reduce tariffs, including most-favored-nation clauses.

To summarize, international economic relations during the three or four decades preceding World War I were more extensive and stable than at any previous time in history. There developed great commercial areas surrounded by smaller countries and colonies, forming complementary units. Gold, moving in and out of countries, mainly as a cover for temporary deficits

1/ Encyclopedia Britannica, 14th Edition, Vol. 14, p. 590

was fairly evenly distributed, and, with the help of exchange stability, there existed a widespread network of well-controlled foreign short-term loan and investment transactions. The absence, in most countries, of measures severely restricting trade permitted a flow of goods and services based on an international division of labor, most advantageous, under those conditions, to individual countries. It was an era of peace, fairly free from political uncertainty, in which, except for the United States, domestic issues were generally subordinate to foreign trade policy.

1914 was a turning point in world economic history. It marked the end of a period of international economic relations based largely on free market conditions, carried out under the gold standard. The termination of trade treaties by belligerents was required by international law, and most foreign investment ceased. In that year, most governments, the United States an exception, went off the gold standard and established rigid controls over gold. Allied purchases of military supplies and essential civilian requirements from the United States and neutrals were financed, first, by foreign exchange and gold balances, then, as these dwindled, by the liquidation of foreign assets and the extension of credits.

As the war progressed, most countries suffered inflation. In the United Kingdom, the wholesale commodity price index rose from 108 in December 1914 to 313 in April 1920 and in France from 107 in October 1914 to 588 in April 1920.[1/]

1/ Bradford, Frederick A., Money and Banking, Longmans, Green and Co., New York, 1946

When World War I ended in 1918, the economic situation of most countries was in a state of chaos. The well-integrated commercial and financial relations in existence between nations in 1914 were gone. The structure of creditor and debtor countries had changed. The United States had become a leading creditor due to a repatriation of American securities, the purchase of foreign securities, and Government loans.

A desire for wartime self-sufficiency had led to an over-expansion in productive capacity, particularly in the area of agriculture. This, added to war damages and widespread shortages, aggravated the general economic confusion.

The authors of the peace treaties failed to stress the need for re-establishment of economic conditions enabling multilateral trade relations to return, and territorial changes brought about the breakdown of certain formerly complementary economic units. Newly-created states proceeded to compete vigorously for markets and immediately introduced protective measures.

The imposition of reparations on Germany and the Allied obligations to the United States amounting to $10 billion [1/] called for heavy one-sided payments. A return to the gold standard was out of the question for most nations until they had cleared away excess money and established their currency at a value lower than prior to or during the war.

The United States, the only strong economic power at this time, terminated all wartime controls after the cessation of

1/ Benns, F. Lee, Europe Since 1914, F.S. Crofts & Co., New York, 1945

hostilities, permitting domestic prices and wages to find their own level, and it dropped its support of the pound and franc. With the conclusion of the peace negotiations, the American Government withdrew largely from world affairs, punctuating this policy by a refusal to become a member of the League of Nations and the enactment of a further increase in tariff rates in 1921-2.[1/] Private investors, on the other hand, renewed their activity, supplying at first predominantly short-term funds, followed by long-term.

1/ Lary, Hal B. and associates, The United States in the World Economy, U.S. Dept. of Commerce, Economic Series No. 23, U.S. Government Printing Office, Washington, D.C., 1943

## III THE INTERWAR PERIOD

In 1914, the United States was a net debtor by more than $3 billion. By the end of 1919, she had become a net creditor of approximately the same amount, not taking into account intergovernmental debts amounting to $10 billion.1/ Simultaneously, European governments were faced with the necessity of restoring their budgets, halting currency depreciation and servicing their war debts.

During the 20's, American practice with respect to commercial policy, war debts and private foreign investment was detrimental to a harmonious world economy. Instead of encouraging an increase in imports to supply its debtors with dollars to repay their obligations, the United States through its commercial policy concentrated on an increase in its export balance, and the subsidy of its Merchant Marine affected adversely an important source of income for seafaring nations. The discontinuation of American Government loans to Europe in 1920 was followed by large private investments whose proceeds were frequently put to uneconomic purposes.2/ Many countries added unnecessarily to their transfer problem by overborrowing.

World-wide demand for food and reconstruction material provoked a pronounced increase in American prices, extending from mid-1919 to mid-1920. This boom, which further impoverished

1/ Lewis, Cleona, Debtor and Creditor Countries: 1938, 1944, The Brookings Institution, Washington, D.C., 1945

2/ Lary, Hal B. and associates, op. cit., p. 138

European buyers, led to a recession beginning in the summer of 1920 and lasting into the following year. The world-wide decline in agricultural prices that materialized due to excessive wartime expansion of capacity added to the burden of debtors, increasing their transfer problem and adding to the difficulty of currency stabilization. Most countries, excluding the United States, underwent monetary crises, and their currencies depreciated rapidly.

Representatives of leading countries, whose governments were aware of the unbalance in monetary and commercial spheres, met at conferences relating to these questions in Brussels and Geneva in 1920 and 1922, respectively. The outcome of their discussions was slight. The participating experts assumed that a restoration of the pre-war monetary framework would summon the pre-war pattern of trade and financial activity. Accordingly, they stressed the importance of returning to a gold standard at any cost, generally ignoring the need for taking into account the changed economic conditions which would prevent its smooth functioning.

Countries slowly returned to some sort of gold standard, but few were able to return to the pre-war parity, and the United States alone was in a position to re-establish it without external aid. The United Kingdom went back to the gold standard at the old par of $4.8665 in 1925, whereas France stabilized the franc in 1928 at about one-fifth its pre-war value.[1/] This relative overvaluation of the pound, as well as

1/ Lary, Hal B. and associates, op. cit., p. 164

of various satellite currencies, and undervaluation of the franc had a weakening effect on the world economy of the 20's. The United Kingdom was forced to depend excessively on foreign short-term capital for balancing its international accounts, while the strength of the French balance of payments position brought about the accumulation in other countries of large French balances, subject to sudden withdrawal.

By 1928, most countries were on the gold standard again; however, it differed from the pre-war standard. Few countries coined gold, and most of them depended on private American loans and investment for support. In some areas, the gold exchange standard was introduced. Countries on this type of standard used as their gold reserves balances held for them by financially more stable gold standard countries. Although some gold standard countries "sterilized" such gold reserves, frequently, the latter served as a base for credit expansion in both countries. This prevented the corrective effects of capital movements that had formerly existed under the gold standard and accentuated the maldistribution of gold.

Early in the 1920's the question of stabilizing the German economy became significant for the United States, as well as for the countries to which Germany owed reparations. The latter, based on estimated war damage, were placed at $33 billion in 1921, excluding the Belgian war debt.[1/] The United States, although she had made no request for reparations, was indirectly affected by the state of the German economy, as it became clear

1/ Benns, F. Lee, op. cit., p. 162

that Germany needed support if she were to keep up her reparations payments and, in turn, enable her creditors to pay their war debts to the United States. In 1924, with the acceptance of the Dawes Plan, German currency was stabilized through a foreign loan of $200 million, over half of it provided by private American investors.[1/] During the time that this plan was in force, reparations payments and, in turn, payments on war debts to the United States were regular. By 1928, however, it was obvious that the total of $33 billion worth of reparations was too great a hardship on the German economy in its existing state of economic instability, and, after lengthy deliberations, the Young Plan was signed in 1930.[2/] It revised downward the total of reparations to $9 billion (based on the balance of war debts owed the United States) and created the Bank for International Settlements. The chief purpose of this Bank, managed by representatives of the central banks of the countries involved in the reparations settlement, including Germany, was to perform the banking functions necessary between the time it received the German annuities and the time they were distributed.

After World War I, the central banking policy of most countries was stronger than it had been in the early 1900's and included certain gold reserve requirements against deposits and higher minimum requirements against notes in circulation. Open-market operations, constituting a principal instrument in

1/ Benns, F. Lee, op. cit., p. 168
2/ Ibid., p.171

credit control, led to the accumulation of gold without fostering conditions for an outflow of funds. Consequently, the influence of gold on currency and credit changed. When a country was short of gold, it went off the gold standard and depreciated its currency, or imposed foreign exchange restrictions.

At first, equilibrium in balance of payments was maintained by foreign countries primarily by credits, both short- and long-term, from private investors in the United States. From 1919 to 1930, such long-term credits amounted to an annual average of nearly $1 billion.1/ Although such funds could have strengthened debtor economies to meet external obligations, through productive reconstruction and economic development, investors neglected to question too closely or to supervise the uses to which these funds were put. An exception was the flow of dollars going into direct investments, where American citizens owned, or had a major interest in, foreign enterprise. From 1919 to 1929, an estimated $3.5 billion went abroad into this form of investment.2/

As the 30's approached, a slackening and, finally in 1930, a near cessation of foreign loans brought to an end this era of precarious financing.3/ The reversal was based mainly on an increase in interest rates of domestic bonds and "the appearance of a speculative boom in (American) equity securities...."4/

1/ Lary, Hal B. and associates, op. cit., p. 89
2/ Ibid., p. 100
3/ Ibid., Table II
4/ Ibid., p. 98

The depression, perhaps more severe in the United States than elsewhere, brought about the greatest unemployment in that country's history. American industry almost reached a stalemate. In an attempt to reduce still further competition from foreign producers and to bolster its employment, the American Congress enacted in 1930 the Smoot-Hawley Tariff Act, a law broadening the tariff structure and raising duties to the highest level in history.

A monetary crisis in Austria in 1931 in which the government had to come to the rescue of the country's largest private bank added to an existing general lack of confidence in the solvency of Central Europe. Bankruptcy also threatened in Germany, where American bankers were withdrawing their short-term funds. To offset further financial difficulties, the Hoover Moratorium was introduced, suspending payments on reparations and war debts for a year, commencing July 1931.[1/] Shortly thereafter, the financial situation in Germany worsened with the continued recall of short-term funds to the United Kingdom, as well as the flight of capital held by nationals. The German Government was finally forced to close all banks temporarily. This led Germany's creditors to negotiate with her in August 1931 a "standstill agreement," extending their short-term credits to it until February 1932.[2/] There next ensued a flight of Dutch, Belgian and Swiss gold holdings from London, inspired by the fear that the "standstill agreement" would make

1/ Benns, F. Lee, op. cit., p. 174
2/ Ibid., p. 175

the United Kingdom insolvent and she would go off the gold standard. Continued withdrawals forced her off in September 1931. This step was followed shortly by many other countries, both in Europe and elsewhere. Finally, many European countries were forced to default on their debts. In 1932, Germany ended her reparations payments, and, two years later, all nations except Finland had discontinued payments on their American war debts.

With the cessation of capital exports from the United States and the advent of the depression, foreigners were hard pressed to overcome the transfer problem and gradually a trend that had been developing since World War I clearly established itself: the correction of maladjustments in balance of payments by government interference, through the adoption of managed currencies and the imposition of discriminatory commercial and monetary practices.

The United States followed the Smoot-Hawley Tariff Act with another measure further impeding the flow of dollars abroad. This was the Johnson Act of 1934, which outlawed loans by American nationals to foreign governments in default on their debt obligations to the United States Government.

Especially significant in this period of intensified protectionism was the renunciation of free trade by its last major exponent, the United Kingdom. The Ottawa agreements of 1932 provided for mutual preferential rates between Great Britain and all the Dominions but the Irish Free State and

between Great Britain and India and Southern Rhodesia. In the same year, the United Kingdom set up an Equalization Account to stabilize the exchange value of the pound in the international monetary market.

Four Western European countries, France, Belgium, the Netherlands, and Switzerland, remained on the gold standard for a time, although this entailed an overvaluation of their currencies in terms of others and worked a hardship on their economies.

The new era in international economic relations was not heralded with enthusiasm, and another united attempt to straighten out world economic disorder was made when the World Monetary and Economic Conference, in which leading countries were represented, convened in London in 1933. Again, the experts were unwilling to attack basic causes, and the failure of the conference became conclusive when the American Government officially declared that its international economic policy must henceforth necessarily be subordinate to internal affairs. Soon, thereafter, the United States depreciated its currency for domestic reasons, and the country went off the gold standard to prevent domestic hoarding of gold and its flight from the country. The devaluation of the dollar in 1934 increased by $2.8 billion the dollar value of gold held by the Treasury.[1/] With $2 billion of this, the United States Government established a Stabilization Fund to steady the exchange value of the dollar in the international money market.

1/ *Encyclopedia Britannica*, 14th Edition, 1939, Vol. 22, p.742

As the 30's progressed, an almost universal rise in import duties was supplemented by restrictive measures which "entailed minute supervision and licensing of trade transactions, either through the medium of exchange control or import quotas or various combinations of both."1/ These restrictions led to preferential tariff systems and special bilateral trading arrangements. By 1938, almost all European countries had established numerous bilateral clearing agreements, which provided that a country paid for its imports only as it exported to the other country who was party to the arrangement. In order to settle its accounts with its exporters, a country might be forced to take whatever products the other offered it.

Germany gradually created a network of restrictions which developed into economic warfare. All foreign exchange was subject to Government control, and a system of multiple currency was introduced. This entailed the use of a variety of Reichmarks representing different values, with each type employed for specific purposes. In the decade preceding the war, Germany began a penetration into the economy of the Balkans. Their economies, predominantly agrarian, were particularly depressed due to the world-wide collapse of agricultural prices and their elimination from former markets by prohibitive tariffs. Germany moved to exchange her products for their raw materials and foodstuffs through bilateral clearing agreements until, eventually, as this arrangement continued, the Balkan economy was supported mainly by the assurance of the German

1/ Lary, Hal B. and associates, op. cit., p. 63

market. Germany consistently held a net import balance in this area and pressed on her creditors whatever types of surpluses she desired. It was a form of "dumping." In addition, the Balkans felt impelled to tolerate German intervention in other spheres of their affairs.

The activity of American industry in the second half of the 30's rallied somewhat, due to recovery from the depression and a governmental policy based on deficit spending to increase employment and raise prices. In 1935, American industrial physical production was 21% lower than in 1929; by 1937, it exceeded the 1929 level by almost 3%. National income, however, remained below the 1929 level of $83 billion, having fallen to 33% less than the 1929 level in 1935 and recovered only to 14% less in 1937.[1/] An inflationary policy was also adopted for the domestic agricultural population, adversely affected by low world farm prices, through the passage in 1933 of the Agri-cutural Adjustment Act. This Act, designed to raise farm prices, provided for special compensation to farmers who restricted acreage under cultivation. None of these policies offered more than a temporary solution to domestic problems. Industrial prices remained below the 1929 level, and industrial output was absorbed by a public works program introduced as a temporary relief measure. The farm program was equally unrewarding. American farmers substituted intensive for extensive cultivation as a means of benefiting from Government subsidies. This prevented a substantial reduction in total output.

1/ Lary, Hal B. and associates, op. cit., Table 16, p. 184

The American Government also took measures in the field of foreign finance and trade to increase its exports. In 1934, it created the Export-Import Bank of Washington, giving it unlimited authority to extend credits to be utilized for the partial financing of American exports.1/ From 1934 to 1939, the Bank made such loans, available to countries not affected by the Johnson Act, to the extent of approximately $100 million.2/ In 1934, the Government partly reversed its foreign commercial policy with the passage of the Reciprocal Trade Agreements Act. Earlier legislation had provided for most-favored-nation treatment under exacting conditions of reciprocity. This Act provided for mutual liberalization of commercial practices between the United States and any country that might care to enter into such an agreement and, if granted equivalent concessions, the Executive Branch was authorized to reduce tariffs by as much as 50%.

By the middle 30's, the world economy consisted of a number of blocs, made up of countries whose currencies were tied to, or whose economies were dependent on, the dominant economic power within the bloc. The sterling bloc, for example, was dominated by the British pound; the economy of the Balkans hinged on Germany; South America was strongly influenced by both the United States and Germany. Finally, the gold bloc, composed

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1/ In 1939, the Act of 1935, which extended the life of the Bank, was amended to provide that "loans outstanding at any one time should not exceed $100,000,000." In the 40's, the Bank's lending authority was revised upward.

2/ Source: telephone conversation with member of Research Div. of the Federal Reserve Bank of Boston.

of Western European countries, was under the leadership of France.

Until 1934, there continued to be a net outward flow of dollars from the United States (accounted for by short-term funds, since the net flow of long-term capital was inward). After 1934, however, there was a heavy net inflow of both short- and long-term capital, mainly from Europe into the United States.1/ A universal desire for liquidity, and banking crises in the United States and elsewhere were the chief elements prompting the outward flow in the early 30's. Repatriation and redemption of dollar bonds and flight of money from abroad accounted mainly for the inward flow after 1934. From the 30's on, the emergence of new factors in international political and economic affairs influenced and finally dominated capital movements. Among these were the inability to overcome the transfer problem, fear of depreciation, growing nationalism, and political uneasiness resulting from the threat of German aggression.

Belgium abandoned the gold standard in 1935, the first move in the dissolution of the gold bloc. In 1936, fear that France planned to depreciate the value of the franc caused the withdrawal of enough funds from its central bank to force her to follow Belgium's example. The Netherlands and Switzerland also abandoned the gold standard in the same year.

After 1934, silver was a substantial item in the American balance of payments. This was due mainly to the American silver purchase program, authorized by the Silver Purchase Act of 1934,

1/ Lary, Hal B. and associates, op. cit., p. 89

which instructed the United States Treasury to purchase silver until the value of silver reserves was equal to one-third those of gold. From 1934-9, silver imports into the United States amounted to a total of more than $1 billion, whereas exports were negligible.[1/] Much of the inward flow came from foreign reserves and silver in circulation. Especially affected were the reserves of China, the major nation on the silver standard. The outflow of silver which ensued had a deflationary effect on her economy and eventually forced her off to a paper-currency standard in 1934 and 1935.

The contingency of a war was reflected in an intensification of protective trade and exchange measures among European nations and an accentuation of the flight of funds into the United States for safekeeping. Central banking procedures throughout the decade had been closely tied to governmental policy, which increasingly subordinated foreign to domestic affairs. This was especially true as the 30's drew to a close and many countries became intent on making their economies increasingly self-sufficient, with a larger proportion of their budgetary expenditures earmarked for strengthening their war machinery.

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1/ Lary, Hal B. and associates, op. cit., p. 86

# IV WORLD WAR II AND POST-WAR PROBLEMS

World War II brought an abrupt end to the form of trade and finance that had developed in the interwar period. A large proportion of the commerce became one-sided, as countries at war increased their stocks of foodstuffs, machinery and war materiel. Official exchange rates were set up, and movements of gold, merchandise and capital were controlled by licensing.

Countries differed in their tactics for financing foreign purchases. Germany intensified her pre-war economic and political penetration. As she gained control over increasing territory, her wartime budget was financed to a considerable extent by dictating and utilizing much of the production of Occupied areas and imposing on them excessive charges, including the costs of occupation. Through the confiscation of private property both within Germany and in Occupied countries, the German Government acquired controlling interests in industrial enterprises. Iron and steel works and related industries were absorbed by the Reichswerke Hermann Goering, which, by D-Day, formed an extensive network over Europe, and other major or strategic foreign companies were attached to large German concerns.

At the beginning of the war, the United Kingdom paid for its net imports with part of its reserves of gold and foreign exchange, with proceeds from the sale of foreign investments, and through credits, principally in the form of sterling

balances.[1] In exchange for goods and services, foreign and Empire countries had by the end of 1944 accumulated approximately $7.6 billion worth of sterling balances.[2]

During the war, the sterling bloc formed a dollar pool. Under this arrangement, all dollars coming into the possession of any member of the bloc were sold to the British Government, which determined their expenditure, based on an endeavor to maximize their efficiency in use.

Early in the war, it became clear to American officials that certain nations fighting on the side to which their Government was sympathetic were in desperate need of financial aid, and it was necessary that some means be devised to circumvent the Johnson Act so that they might continue to receive those imports essential to the prosecution of the war. Aware that much of the expenditure of war was for unproductive goods and believing that those countries fighting against the Axis were being of indirect service to the United States, the American Government enacted the Lend-Lease Act in 1941, which was based on the principle of comparative sacrifice, or on the theory that the size and resources of a country should be the principal determinants of its contribution to financing the war. No reference was made to payment in goods or money. The Act was implemented by mutual Aid agreements between the United States and other countries in which each of the two parties agreed (after

1/ Out of a total of approximately $18 billion worth of foreign investments, about one-quarter had been liquidated by the end of 1944. Lewis, Cleona, op. cit., p. 20

2/ Ibid., p. 21.

the United States became a belligerent) to supply each other with the goods and services necessary to the waging of war. From March 1941 to July 1946, the United States Congress appropriated a net of $43 billion for Lend-Lease goods and services, of which $2 billion were allocated after V-J Day. Most of this aid ($31 billion worth) went to the British Empire and $11 billion worth to the U.S.S.R.[1/] The American Government raised its own funds through taxation and the sale of bonds to private individuals and to commercial banks.

During the war, the large volume of trade was carried on mainly without being balanced between countries and without causing pressure on currencies. This was due to the effect of governmental control of exchange rates and Lend-Lease. In addition to Lend-Lease and loans, the United States Government paid for the expansion of the production of strategic products in friendly countries and engaged in a preclusive purchasing program to prevent strategic goods from coming into enemy possession.

As the war continued, some of the Allies took steps to carry over into peacetime their wartime cooperation in certain spheres. This move was based on a recognition of the fact that to the maladjustments of the past two decades would be added the legacy of the current war--impairment of productive facilities, a reduction in monetary reserves, additional debts, inflationary pressures, widespread shortages, and destruction--

1/ The World Almanac, 1947 edition, New York World-Telegram, New York, 1947, p. 516

leading to a general disruption in foreign trade and finance. Accordingly, a number of international conferences were held to discuss mutual problems and set up permanent organizations. Of particular interest in this connection was the United Nations Monetary and Financial Conference held at Bretton Woods, N. H., in July 1944, which will be covered in some detail in the next chapter.

# V THE BRETTON WOODS CONFERENCE

During the interwar period, it became increasingly apparent that the stagnating effect in international economic relations was caused not only by basic changes but to an important extent by a superstructure of exchange and commercial restrictions imposed on domestic economies. Large-scale public works programs served as artificial expedients and the threatened war situation was a temporary factor in the activation of productive capacity.

The war added to the maladjustments evident in the years preceding it. Most countries were faced after the war with inflation, budgetary deficits, and an excess of demand over supply - an outcome of a combination of normal requirements, war damage, scarcity or absence of raw materials, inadequate manpower and lower productivity. UNRRA shipments, which began late in 1944, filled a small part of the needs of wartorn areas, but the United States was the main potential source. Moreover, dollar and gold reserves of foreign countries were low, with few exceptions.

The United States had become the world's largest creditor. Although shortages and destruction elsewhere carried over into the immediate post-war period an active demand for its output, it was necessary that markets be maintained beyond the transitional period to make use of her productive facilities, which had undergone substantial wartime expansion, in order to avoid internal

deflationary pressures. From the time that she became a leading industrial power, the imports of the United States had consisted predominently of raw materials and her exports of manufactures and semi-manufactures. Continued demand for the latter required a high national income on the part of foreign countries and the ability to accumulate the necessary foreign exchange. The future level of American exports would depend on a number of factors: the success of the Marshall Plan, which offers aid to interested European countries after they have drawn up a practical blueprint to clear up their economic disorder; the pattern of trade relations established by countries not participating in this plan; the foreign commercial policy of the United States; the degree of success and the significance of international bodies established to bring about conditions favoring multilateral trade and clearing; the extent and influence of private and Government loans; the pressure for a higher standard of living and the pressure of a larger population in the United States; the character of cyclical movements; and the extent to which military considerations throughout the world obscure economic issues.

The United Kingdom, historically the world's banking center and its most important trader, had by the end of the war become a debtor. Two of her traditional sources of revenue to pay for her enormous excess of imports - shipping receipts and income from investments - had been reduced by the war. Much of her merchant marine had been destroyed and a large proportion

of her foreign investments liquidated to help finance the war. She was handicapped in her third principal means of raising foreign exchange, exportation, through a shortage of raw materials and labor, by an overwhelming need for her own production and by a weakened competitive position in world markets due to a need for modernization.

Despite the aid extended through Lend-Lease, the United Kingdom increased substantially its indebtedness during the war, and its reserves of gold and foreign exchange were sharply reduced. Its territory both at home and abroad suffered damages from the enemy. In 1946, the United States negotiated a British loan of $4.4 billion in exchange for certain pledges affecting British commercial policy. The British Government agreed specifically to the dissolution of its restrictive exchange arrangements with the sterling area, the gradual unfreezing of accumulated sterling balances for convertibility into any currency, and a general relaxation of trade restrictions.

The direction of post-war Russian economic policy was not clear. The pre-war state of uneasiness in European politics followed by the hostilities interrupted a trend toward greater production in her consumer goods industries. After the war, a preoccupation with further development of Russian productive resources plus repair of war destruction required the continuation of a heavy outlay in capital goods. The role that the U.S.S.R. would play in international economic relations was not discernible. Prior to the war, her state trading monopoly

had entered Russian exports into the world market only to the extent that it was necessary to supplement gold production in payment for her imports. In the past two years, however, the U.S.S.R. has entered into important bilateral trade agreements with Scandinavian and Eastern European countries and, up to the present, has chosen not to become a member of international agencies fostering the creation of machinery favorable to free trade.

The economic future of Germany and Japan, prominent pre-war industrial nations, had not been mapped out by the United Nations. The desirability of restoring their great industrial capacity was offset by political considerations to prevent their renascence as military powers. However, the restoration of a "normal" level of activity in either country would have to be preceded by a period of stabilization, supported by outside aid.

China urgently required extensive immediate relief and, in the long run, internal economic development to raise the standard of living of her population. The latter was true of other unindustrialized parts of the world. South America needed development, and certain of its countries had built up substantial dollar balances during the war in exchange for exports to this country. However, the political instability which persisted on that continent would probably serve as a partial obstacle in encouraging the necessary foreign investment.

The war had worsened the position of most countries suffering

a deficit in their balance of payments before the war. To the existence of a precarious financial position based on an uncertain market for their foodstuffs and raw materials was added war destruction, loss of manpower, lack of foreign exchange, and inflation. Exceptions were certain members of the sterling bloc, through the accumulation of sterling in exchange for their exports to the United Kingdom. Some of these, notably India and Palestine, shifted from debtor to creditor status in the period from 1938 to 1944.

During the war, there was much speculation within and among countries with respect to the type of framework necessary to restore extensive international trade relations on a sound basis to encourage full peacetime employment and a higher national income, leading to the stabilization of domestic economies at a high level of activity. Two major countries especially concerned with this question were the United States and the United Kingdom. They believed that the interwar approach by countries of meeting their economic difficulties single-handed would prove as futile and disastrous after the war as before, and they were desirous of taking advantage of the spirit of international teamwork that had developed during the war. Accordingly, in each of these countries there arose almost simultaneously a blueprint devising means to re-establish a system of multilateral transactions in commerce and finance, taking into account the changes which had transpired in the interval since the existence of such a system.

These plans consisted of drafts for an International Clearing Union and for an International Stabilization Fund, fathered, respectively, by the late Lord Keynes, the foremost economist in the United Kingdom at the time, and Harry D. White of the U.S. Treasury. Dating back to 1943, when these plans appeared, discussions took place in both countries and gradually included officials of other nations, until they culminated in 1944 in the United Nations Monetary and Financial Conference at Bretton Woods. It was at this conference that a program was devised by representatives of the 44 countries present to provide a financial structure favorable to the revival of relatively free trade among nations.[1/]

To accomplish this end, plans were made for the establishment of two world agencies, the International Monetary Fund and the International Bank for Reconstruction and Development. The functions of these were to be, respectively, 1) to establish a pool of foreign exchange to permit members to settle temporary maladjustments on current account in their balance of payments, the stabilization of their currencies, a gradual relaxation of exchange restrictions, and 2) to make available to needy countries long-term credits for economic reconstruction and development and for stabilization. The documents drafting the Fund and Bank and enumerating their functions and powers were entitled Articles of Agreement (see Appendix I for those outlining the Fund), and provisions were made for amending them.

At the same conference, it was decided that the Bank for

1/ In addition, Denmark sent an unofficial observer to the conference.

International Settlements be liquidated as rapidly as feasible; that a strong effort be made to uncover enemy assets unjustly gained, before there was opportunity to convert them into less identifiable forms, and return them to their rightful owners; that the assembled countries would promote other measures, outside the scope of the agencies outlined by the conference, conducive to peaceful world trade.

Until December 31, 1946, any of the countries represented at the Bretton Woods conference was eligible for membership in the Fund upon ratification by its legislature of the Articles of Agreement. Eligibility for membership in the Bank depended upon prior membership in the Fund, in addition to ratification of the Articles of Agreement drafting the Bank. Up to the present, forty of these so-called Schedule A countries have become members of both organizations, with Russia, Australia, Haiti and Liberia abstaining. In order to join, these must now make application for membership. Non-Schedule A countries may also apply for admission. Of the latter, Italy, Syria, and Turkey have become members, bringing the present membership of each organization up to 43. It is understood that the acceptance of membership by a government is in behalf of itself, as well as any territory in its possession or over which it has control.

The Articles of Agreement took on lawful existence December 27, 1945. However, the Bank did not begin operations until June 1946 and it was followed nine months later by the Fund. The

main office of each agency must be located in the country with the largest quota, and has been situated in Washington, D.C.

There prevailed strong sentiment in the United States for a return to some form of the gold standard, due to the prosperous conditions in existence during the pre-World War I period when it was in operation. During the interwar period a strong fear of commercial banking procedure developed because the power to create money under it might lead to excess creation, bringing with it the dangers of inflation. This argument led to the endorsement of the "impersonal restraints" of the gold standard.[1/] History proved, however, that the gold standard worked smoothly only as long as it encountered no abnormal economic strains. The changes evident after World War I and the crisis in the 30's pointed up the inability of the gold standard to withstand adversity without support. A continuation into the period following World War II of basic changes in individual economies of countries important in world trade, leading to still less complementary international economic relations, removed the world still farther from a set of conditions under which the gold standard might successfully operate.

In the United Kingdom, opposition to the gold standard was strong because of the depressive nature of the domestic economy from the time it returned to the gold standard in 1925 at the old pre-war parity until the subsequent depreciation of the pound in 1931.

1/ Anon., The World Bank Proposals, Fortune, 1943, XXVIII, 26, p. 172

The Keynes and Treasury plans had essentially the same objective--the creation of permanent international machinery to encourage the establishment of world conditions suitable to a heavy network of multilateral trade and clearing in order to ensure a higher degree of prosperity within countries, characterized by full employment and higher national incomes. There was some variation in the plans with respect to execution.

The International Clearing Union (the Keynes plan) was based on the overdraft principle, with no capital of its own. Each member country was assigned a quota fixed in terms of gold for the purpose of settling international balances. These credits moved only within the system, so that an increase in debits on the account of a central bank due to settlement of an unfavorable balance automatically produced a credit balance on the books of another central bank. No stipulation was made as to the size of quotas. These were to be based mainly the value of a country's trade and were subject to periodic revision.

The Treasury's International Stabilization Fund possessed capital amounting to $5 billion, made up of quotas of gold and domestic currencies, subscribed by member countries. Purchases from and sales to the Fund of currency would make available, under adequate safeguards, necessary foreign exchange to members, in settlement of unfavorable balances on current account and maintain the liquidity of the Fund's resources. Purchases of member currencies in exchange for domestic currency were limited by a country's quota. The institution in each plan

served to supplement existing facilities in the international monetary market.

Each plan emphasized exchange stabilization as a function of its institution, but provision was made for orderly changes in exchange rates where needed. Exchange rates were defined in terms of a new international unit of account (the"bancor" in the Keynes plan and the "unitas" in the Treasury plan), and these, in turn, were fixed in terms of gold.

The Keynes plan provided for recommendations and penalties for countries building up and maintaining excessive balances of either debits or credits; the Treasury plan provided for penalties against excessive or continued debits and recommendations for use of excessive credit balances. Recommendations and, in the Keynes plan, help were provided to correct underlying causes of currency instability. The Keynes plan recommended that another international institution supply long-term credits.

Although suggestions from each of the above plans were incorporated into the Articles of Agreement of the Fund, the latter were based mainly on the Treasury plan. The Fund was to be a permanent institution with a capital of $10 billion (if its membership were composed of all the countries of the world), consisting of the quotas subscribed by member countries and paid in gold and domestic currency. The introduction of a new unit of international account was abandoned, and gold continued to serve in this capacity and to maintain the liquidity of the Fund's resources.

Although the Fund retained the commercial banking procedure, on which the gold standard was based, it provided for certain adjustments so that the new system would be capable of weathering economic crises. Consequently, it differed from the gold standard in the following significant respects:

1) The Fund put at the disposal of members its reserves of foreign exchange, regardless of the distribution of gold.

2) The Fund could induce members to take appropriate measures if they departed from equilibrium.

3) The Fund provided for orderly changes in exchange rates.

4) The Fund had the right to permit the introduction or continuation of exchange restrictions under certain conditions.

The Fund diverged markedly from the Keynes plan in one respect. The Fund could sell only its reserves of foreign exchange and gold contributed by its members and what it was able to buy or borrow, which enabled surplus countries to know approximately what amount of their currency would be available to other countries. Although the Keynes plan provided that members were limited in the use of their overdraft privileges by their quotas, creditors had no means of determining against what countries purchases would be made, and it was conceivable that one or a few creditors would suffer severe inflation as a result of high credit balances. This fearlessness toward inflation demonstrated by Lord Keynes was explained in part by consternation over the domestic consequences of deflationary pressures and an assumption that wages had a natural tendency

"to rise beyond the limits set by the volume of money."[1] Wage rises brought about price rises. If the latter were checked, marginal producers were squeezed out of production by increasing costs, creating unemployment. Domestic prices should, therefore, not be subject to outside dictation.

Recognition of the interdependence of the Fund and Bank was emphasized by the condition that an applicant for membership to the Bank must be a member of the Fund. An object of this regulation was an attempt to decrease defaults on Bank loans through the intrusion of the transfer problem.

The creators of the Articles of Agreement emphasized the need for concerted action in the field of commercial policy leading to a relaxation of trade restrictions as a necessary counterpart of the Bretton Woods attack on international monetary relations.

The Congress of the United States made that country a member of the Fund and Bank when it approved HR 3314 in July 1945. In the same Act, it provided for a National Advisory Council on Monetary and Financial Affairs, whose purpose was "to coordinate the policies and operations of the representatives of the United States on the Fund and Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange or monetary transactions---" The Council was instructed to keep the Executive Branch of the Government fully informed on all

1/ Halm, George N., International Monetary Cooperation, The University of North Carolina Press, North Carolina, 1945, p. 105

activities under its jurisdiction, through conferences and the submission of reports. The Act also emphasized the Government's desire to participate with other governments in the reduction of practices restrictive to foreign trade and not covered by the Articles of Agreement.

## VI THE INTERNATIONAL MONETARY FUND

The Fund has been referred to as a "Banker of Central Banks."[1/] With the establishment of the Fund, there now exists the following setup: individuals and firms have deposits in domestic commercial banks; commercial banks have reserve balances in central banks; and central banks maintain part of their balances of foreign money with the Fund. The formation by members of the Fund of a pool of foreign exchange and gold gives members "time to correct maladjustments in their balances of payments without resorting to measures destructive of national and international prosperity."[2/] Unlike a central bank, the Fund does not have the power to create money; however, it can make more available, by borrowing the currency of a member, with the latter's permission or through the purchase of a currency in exchange for the Fund's gold. In this manner, the quantity of foreign exchange could theoretically be brought under control within limits, as central banking does. The effectiveness of the Fund in this respect is determined by the importance in world trade of the countries composing its membership and the willingness of members to cooperate by agreeing to loans of their currency.

A primary purpose of the Fund is the minimization of the duration and degree of disequilibrium in the international balance of payments of its members. As a permanent institution,

1/ Halm, George N., op. cit., p. 51
2/ Ibid., p. 55

it proposes to accomplish this by providing machinery for consultation and concerted action on international monetary problems, by the promotion of exchange stability, gradual elimination of foreign exchange restrictions, and by making available to members its reserves, under adequate safeguards, and to eliminate or postpone the need for unilateral action which might prove disadvantageous to both the member involved, as well as other members. By these means, the Fund seeks to "facilitate the expansion and balanced growth of international trade, and to contribute...to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources" of its members.1/

To implement its policy, the Fund has at hand, more specifically, the following:

1) its working capital made up chiefly of the quotas of foreign exchange and gold subscribed by its membership. Quotas at present amount to a total of $7.7 billion.2/ The American quota of $2.75 billion is the largest, amounting to 36% of the total. The United Kingdom has the second largest with $1.3 billion.

The gold value of the Fund's assets must be maintained, in

1/ Articles of Agreement of the Fund, I(ii)

2/ The Articles of Agreement do not indicate the formula used to arrive at individual quotas. The White plan stated in this connection that due weight be given "a country's holdings of gold and free foreign exchange, the magnitude and the fluctuations of its balance of international payments, its national income, and other relevant factors." The Keynes plan stressed the importance of the value of a country's foreign trade.

spite of changes in the par value of any member's currency. Each member must pay its quota in full on or before the date it is eligible to buy currencies from the Fund. Part of the quota must be paid in gold--either 25% of the quota or 10% of the member's net holdings of gold and American dollars, whichever is smaller--and the balance is paid in domestic currency. Quantitative limits, both annual and total, are placed on the use by individual members of the Fund's reserves.

2) its voice in the maintenance of exchange stability. Members of the Fund undertake "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations."[1/] The par value of member currencies is fixed in terms of gold or of the U.S. dollar of the weight and fineness in effect on July 1, 1944.[2/] All purchases of gold and foreign exchange by members must be based on par values. The par value of currencies may be altered only where necessary to correct a fundamental disequilibrium. Such a change, where it exceeds 10% of the initial par value, must be authorized by the Fund.

3) its control over the use of its resources. The Fund's resources may not be used to meet a "large or sustained outflow of capital" unless it is "of reasonable amount required for the

1/ Articles of Agreement of the Fund, IV 4a

2/ On December 18, 1946, the Fund announced the par value of the currencies of a majority of its members. Certain countries took advantage of the regulation permitting them to postpone presentation of this information, on the grounds of inadequate recovery from the effects of war.

expansion of exports or in the ordinary course of.....business."[1/]
The use to which a member puts its own supply of foreign exchange and gold must be in accordance with the purposes of the Fund. Members may regulate international capital movements to the extent that they do not interfere with payments for current transactions.

4) the right to declare a currency scarce. A member currency may become scarce if demand exceeds the Fund's ability to supply it. The Fund, in this case, may require the member to sell it its currency for gold. Or the Fund may ask the member permission to borrow its currency from the member or elsewhere. The member has the right to refuse this request. If "the demand for a member's currency seriously threatens the Fund's ability to supply" it, the Fund "shall formally declare such currency scarce," rationing its remaining supply.[2/] This announcement entitles members to impose restrictions in the use of their reserves of the currency, until such time as the Fund formally declares the currency to be no longer scarce.

5) the obligation, under certain conditions, of members to repurchase their currency. A member may repurchase, and the Fund shall sell in exchange for gold, holdings of the member's currency in excess of its quota. In addition, provision is made, under certain conditions, for the compulsory repurchase by a member of part of its currency held by the Fund, at the end of each fiscal year. The amount of gold or convertible currencies

1/ Articles of Agreement of the Fund, VI, 1a
2/ Ibid., VII, 3a

which a member shall use to repurchase its currency depends on the increase in its monetary reserves during the year, the composition of currencies making up these reserves, and the Fund's holdings of other currencies. As a result of the repurchase, however, a member's monetary reserves may not be below its quota, the Fund's holdings of its currency may not be below 75% of its quota, nor may the Fund's holdings of any currency which the member wishes to use in repurchase of its currency be more than 75% of the quota of the member concerned. If the monetary reserves of a member have decreased during the year more than the Fund's holdings of its currency have increased, it is not subject to repurchase of its currency.

6) the control over restrictions on current payments and of discriminatory currency practices. It is one of the stated purposes of the Fund to eliminate "foreign exchange restrictions which hamper the growth of world trade;" therefore, no member may "impose restrictions on the making of payments and transfers for current international transactions" nor "engage in....any discriminatory currency arrangements or multiple currency practices," unless authorized by the Fund.1/

During the transitional period, preceding the time when national economies are expected to be sufficiently well balanced that maladjustments in their balance of payments will not be severe or of long duration, the Fund may permit certain restrictive practices to be established or continued. Areas with a weak productive capacity, those whose territory or property has

1/ Articles of Agreement of the Fund, I(iv); VIII, 2a; VIII, 3.

been severely damaged by war or who are underdeveloped, or who have inadequate gold or foreign exchange reserves may apply for permission to continue or introduce certain types of restrictions. The Fund shall review such cases individually and, if it permits such measures, shall watch the progress of the country and may alter its decision as conditions within a country change.

7) right to communicate its views to members. The Fund has at all times "the right to communicate its views informally to any member on any matter arising under...(the) Agreement" and it may under certain conditions publish a report to a member concerning its "monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members."[1/]

8) the right to make various charges. In order to encourage members to correct maladjustments in their balance of payments by means other than recourse to the Fund's resources, to cover handling costs of the Fund, and to add to the liquidity of the Fund's resources, by encouraging a member to repurchase from the Fund reserves of its currency in excess of its quota, the Fund levies on each member a service charge for the purchase of another member's currency, a handling charge for the sale or purchase of gold, and a charge on the average daily balance of its currency held by the Fund in excess of its quota. The larger the holdings, the more punitive is the charge.

9) the right to declare a member inelgible to use the Fund's resources or to expel a member. Failure by a member to fulfill

1/ Articles of Agreement of the Fund, XII, 8

any of its obligations under the Agreement permits the Fund to declare it ineligible to use its resources. If the member continues to disregard its obligations, the Fund may expel it from the organization.

10) the requirement that its members furnish detailed information with respect to their financial and commercial position. Members are responsible to the Fund for furnishing whatever information it deems necessary for its operations, so long as said information is not so detailed as to reveal the affairs of individuals or corporations. As a minimum essential for the effective discharge of the Fund's duties, national data on the following matters are required: the holdings of gold and foreign exchange by a government and unofficial fiscal agencies; gold production, exports, and imports; value of total exports and imports of merchandise, by country of destination and origin; details regarding a member's balance of international payments and international investment position; the national income; price indices; buying and selling rates for foreign currencies; and details regarding exchange controls and official clearing arrangements, if any.

11) the right to cooperate with other international bodies. "The Fund shall cooperate within the terms of...(the) Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields."[1/]

12) the control of relations between member and non-member

1/ *Articles of Agreement* of the Fund, X

countries. Members of the Fund agree not to engage in transactions or cooperate in practices with non-members, contrary to the provisions of the Agreement or the purposes of the Fund.

The Fund deals only with the Treasury, central bank, stabilization fund, or other similar fiscal agency of its members.

Organization of the Fund consists of a Board of Governors, a number of Executive Directors, a Managing Director, and a staff. All powers are invested in the Board of Governors, composed of one governor and one alternate appointed by each member, and its interpretation of the Articles is final. The Board serves chiefly as a policy-making body, relying on the Executive Directors for the conduct of the general operations of the Fund, and it has the right to transfer to them any of its powers, with the exception of those having to do with the admission of new members, approval of a revision of quotas, approval of a uniform change in par values of member currencies, cooperation with international agencies, determination of the distribution of the Fund's net income, expulsion of a member, the decision to liquidate the Fund, and appeals for interpretation of the Agreement.

There shall not be less than twelve Executive Directors, of whom five are appointed by the five members with the largest quotas, two by the American Republics not entitled to appoint Directors, and five by other members not entitled to appoint Directors. The Executive Directors appoint a Managing Director

as their Chairman (Camille Gutt, at present), who exercises the vote at their meetings only in case of a tie. Responsible for the activities of the staff, he is charged mainly with the conduct of the ordinary business of the Fund. Both the Managing Director and the staff pledge sole allegiance to the Fund.

The Executive Directors function in continuous session, unlike the Board, which holds an annual meeting and such others as it may desire or as are called by the Executive Directors.

Unless otherwise specified by the Agreement, all decisions are based on a majority vote. Voting power of members depends mainly on the size of their quotas. Each member has 250 votes plus one additional vote "for each part of its quota equivalent to one hundred thousand United States dollars," plus one vote "for the equivalent of each four hundred thousand United States dollars of net sales of its currency" or minus one vote for corresponding net purchases of foreign exchange up to the date when the vote is taken. Based on quotas alone, the United States has 32% of the vote and the United Kingdom controls 15%.

For the benefit of its members, the Fund is required to publish an annual report containing an audited statement of its accounts, in addition to more frequent summary statements of its transactions and holdings of gold and foreign exchange.

The Fund does not provide facilities for relief or reconstruc-

tion or deal with international indebtedness arising out of the war. Although outside aid for these purposes had to be the responsibility of other sources, however, conferees at Bretton Woods were anxious that the Fund begin operation as soon as possible in the transitional period, because it was felt that the Fund was essential during this period to serve as an international payment and stabilization mechanism. Without some cushion of reserves, such as the Fund provided, the post-war shortage of exchange reserves and gold in numerous countries might easily precipitate a series of unilateral and bilateral measures damaging to world economic relations.

The exact duration of the transitional period for individual countries was indeterminate, and it was considered imperative to put into operation a program for international cooperation at a time when governments felt most strongly "the unity of purpose and energy of hope for better things to come, springing from the victory of the United Nations....." 1/

The Fund has been described by some of its American supporters as an aid in the creation of an international money market resembling that in existence under the gold standard. Lord Keynes, on the other hand, asserted that they were the opposite. There is some resemblence as well as a marked difference between the two.

The gold standard provided for certain specific conditions: the unlimited buying and selling of gold at a fixed price and and unlimited shipment among nations; the expression of monetary

1/ Halm, George N., op. cit., p.228

units in terms of weight units of gold; fixed exchange rates; a minimum of exchange and commercial controls; and conservative domestic fiscal policies. The internal and external values of a currency were tied. Domestic policy adjusted itself to the movement of gold, implying a flexibility of cost-price stuctures.

Under this system, theoretically, a deficit in a country's balance of payments necessitated the export of gold. This exodus, in turn, contracted credit, which raised credit rates. Higher interest rates attracted short-term funds and added to the supply of foreign exchange. The contraction of credit resulted in a fall in prices, a reduction in imports, and led to an increase in exports. At the same time, the gold-receiving country was experiencing the reverse set of conditions, until, presumably, an equilibrium was established. Gold reserves, therefore, were shock absorbers, whose movements resulted in capital inflow and exportable surpluses. Theoretically, the outcome of gold movements under the standard was simple and predictable, and countries were kept in line without control by international authority. Small early doses of inflation and deflation were thought to prevent sharper crises.

The gold standard was dominant during a period of rapidly-expanding world economy, characterized by rising prices. Consequently, its deflationary bias was balanced by universal credit expansion, increasing development of new industries and new areas and the growing needs of a growing population. During this period of well-integrated complementary international

economic relations, young countries obtained the goods necessary for their development from industrially more mature countries and paid for them in food and raw materials for which their creditors had a need.

In the long run, predominantly agricultural countries face an inelasticity of demand for their products. At the same time, their disbursements for debt service and industrial goods (for which there is an elastic demand) tend to remain stable. When capital does not enter the country, producers lower their prices and, to maintain income, increase their production. This causes a further reduction in prices.

The period preceding World War I was characterized by an absence of major national disorders, and capital movements provided countries with adequate reserves. The relation of price-cost to exchange rates was satisfactory, and wage rates were reasonably flexible. Finally, central banks were preoccupied mainly with liquidity.

The gold standard has proven to be more deflationary in its effects than inflationary. Although countries losing gold are forced to contract due to a depletion in their monetary reserves, an automatic expansion of credit does not take place in gold-receiving countries. In addition, higher prices may increase profit expectation and attract more rather than less capital. This tends to raise prices still further. Credit contraction in a country reduces the consumption of both domestic and foreign goods and may have a contagious effect

abroad. Thus the gold standard with its rigidity may spread booms and depression, rather than inevitably produce an equilibrium. The effect of the gold standard on a country depends on the importance of foreign trade to its economy. It has fewer repercussions in a country where foreign trade is secondary.

The gold standard provides no means of adjusting exchange rates no longer properly related after a boom-bust period brought on by war or expressing cyclical movements or basic changes in an economy. The gold standard assumes the existence of full employment. However, prices may be affected by output and employment, as well as by gold movements.

In the interwar period, the maldistribution of gold and weakened competitive position of many countries forced them to abandon conservative fiscal policies, in which gold served as the main determinant of credit, as they attempted to counter deflationary pressures with such measures as deficit spending programs and the creation of cheap money. Domestic monetary policy based on internal economic stabilization became increasingly a part of central banking policy, tying in with national, trade and other policies. Full employment programs took precedence over the maintenance of stable rates.

The growing rigidity of prices and costs in economic structures under capitalism was an additional obstacle to the effectiveness of the gold standard.

During the interwar period, fear of a drain on their

weakened reserves and a desire to maintain an equilibrium in their balance of payments caused many countries to introduce controls on their capital movements.

Present and foreseeable world economic conditions differ widely from those necessary to the smooth operation of the gold standard. The world is faced with an absence of complementary economic relations among countries, a maldistribution of gold, unwillingness on the part of countries to subordinate domestic to foreign policies and permit a binding tie-up between external and internal values of their currencies, a growing rigidity in cost and price structures, necessity for government intervention to prevent flights of capital, unwillingness to abide by rigid exchange rates which fail to take into account basic changes resulting from economic crises or growth, and a reluctance to give up commercial or exchange restrictions, whether for political or economic reasons.

Under the Fund, gold continues to serve as the unit of international account, since the par values of member currencies are fixed in terms of gold. Gold also helps the Fund maintain the liquidity of its resources, because the Fund tends to convert its local currency reserves into gold, in order to stand ready to buy scarce currencies. Member countries are obliged to buy or sell gold at a price differing from the parity by no more than a prescribed margin. This provision introduces artificial gold points and renders competitive exchange depreciation impossible. Currency transfers under the

Fund may affect bank reserves in the manner of gold movements under the gold standard. The same monetary and price effects are theoretically possible, especially if the member purchasing currency from the Fund has no reserves or if its central bank is already losing gold and where the net creditor does not have a large reserve of gold.

Unlike the gold standard mechanism, however, the Fund's reserves are available to its entire membership, independent of the supply and present maldistribution of gold. Provisions are made for orderly adjustments in exchange rates, where they are out of line with price and cost levels, and, under certain conditions, exchange restrictions may be established or continued. In addition, the Fund can persuade a member to take appropriate measures, if a disequilibrium occurs in its balance of payments.

Prominent opposition to the establishment of the Fund as a workable solution to international monetary problems has been voiced by the supporters of the key countries approach. This group, led by Professor John H. Williams, contends that external stability depends on the internal stability of key countries. Because economic conditions in deficit countries reflect the state of key countries, these should keep economically strong, by collaboration, if possible, in their internal affairs.

Professor Williams suggests that the first step in effecting such a policy would be the joint stabilization of the

dollar and the pound. Then as other countries solved their disequilibria individually, with the aid of such measures as loans, they would be prepared to attach themselves to the key currencies, eventuating in general equilibrium. As more countries pegged their currencies to key countries', trade would take on an increasingly multilateral character. Professor Williams is skeptical as to the ability of the Fund to weather the transitional period and, at the same time, achieve its long-term objective, which, he feels, can be achieved more simply through voluntary means and with a minimum of inter-governmental control.

Professor Halm, in criticizing this viewpoint, argues that, though aiming at multilateralism, it encourages the establishment of a system of monetary blocs and might lead to bilateralism. Since countries would not join these blocs until they had corrected their maladjustments, they would not receive aid when most urgent and might be forced to resort to such unilateral measures as competitive exchange depreciation and exchange control, unfavorable to other countries. The key countries approach, therefore, would offer no broad framework favorable to immediate collaboration and consultation on pertinent international monetary affairs. The Fund would not only offer this advantage but strives to shorten the transitional period of members, as well, with the help of its provisions for orderly changes in exchange rates, gradual relaxation of restrictive exchange practices, reserves of foreign exchange

and gold, and cooperation on related matters with other international agencies.

The key countries approach would set up a system with units of leaders and satellites which would render impossible the generally non-political approach to economic matters which the Fund professes. Political considerations would partially determine the extension of credits necessary to stabilize certain of the key countries, as well as the satellites, and small countries might resent any resulting domination by a key country. Smaller countries might attach themselves to one key currency rather than to both the dollar and pound, serving conceivably to create or widen serious differences between key countries.

The purpose of the Fund is not to favor deficit countries as against creditors. However, according to Professor Halm, it is intended to dispose of the notion that debtors should always suffer the consequences of maladjustments in their balance of payments through deflationary pressures, since in the past debtors have frequently been forced to such action as a result of contradictory policies by creditors, e.g. the simultaneous calling of loans or abrupt discontinuation of credits and increases in tariff rates. "Deficit and credit balances...are determined by exports and imports (of commodities, services, and securities)," [1] which cause the policies of the creditor countries with respect to wages, prices, credit, employment, and tariffs constantly to influence the actions of debtor countries.

1/ Halm, George N., op. cit., p. 102

To establish an equilibrium in international accounts, Mrs. Robinson points out that creditors, aside from the outright cancellation of debts have three alternatives:

1) a rise in imports by
   I improving the competitive position of the debtor country through a)lowering tariffs; b)raising domestic wages, and c)appreciating their currencies.

   II bringing about "such an increase in employment and expenditure" as to enable an increase in the consumption of foreign as well as domestic goods.

2) making promising long-term investments equal to the deficit involved.

3) the acceptance of gold which may lead to deflation or protective measures. This method tends to lower the level of activity at which the equilibrium in international payments takes place.1/

Professor Halm asserts that it is to the self-interest of creditors to join the Fund. Without the reserves which the Fund makes available, under certain conditions, to them, many deficit countries would be forced to follow a policy of encouraging an increase in exports and a reduction in imports. The increase in exports might be accomplished by deflationary measures or by competitive exchange depreciation. To decrease imports, deficit countries might introduce protective and exchange control measures. All these measures would be to the disadvantage of the creditor countries. The Fund authorizes exchange control and exchange depreciation, beyond 10% of initial rates, only under special conditions.

It has been argued that within the framework of the Fund the creditors would grant borrowing rights without taking into account credit worthiness. In this connection, Professor

1/ Halm, George N., op. cit., p. 101

Halm asserts that direct lending is not always superior to indirect lending. He points out that countries making use of their buying rights are "subjected to increasing pressure by the....Fund...to adopt policies...designed to help restore international payment equilibrium."[1/] Secondly, the Fund offers some diversification of risk. Thirdly, creditors would grant foreign loans in any case. And, fourthly, the creditor stands a better chance of repayment under multilateral rather than bilateral clearing conditions, since he can thus increase his imports from any part of the world rather than from the country under obligation to him.

Professor Williams raises objections to the philosophy underlying the Articles of Agreement of the Fund. This doctrine, based mainly on the English classical theory of international trade, assumes fixed productive factors and makes no allowance for changes in the resources of countries. Based on the notion of specialization and antithetical to mobility, it ignores the fact that countries do not always simply produce exportable surpluses but, rather, are guided by market and other conditions, which may result in efforts toward greater self-sufficiency. Countries vary in size, resources, climate, skills, location, and flexibility in economic structure and do not pass through similar stages in economic development at the same time. Therefore, it is impractical to lay stress on uniformity of policy. Young countries must increase their productivity in order to increase their purchasing power, which, in turn,

1/ Halm, George N., op. cit., p. 97

would "increase the future incomes of their customers." In order to improve their competitive position, Professor Williams asserts that new traders and agricultural countries should have more latitude in adjustments in their exchange rates and especially in the imposition of exchange controls. Although the Fund authorizes such measures under specific conditions, it lays stress on gradual elimination of foreign exchange restrictions.

The Fund is at a serious disadvantage in its operations by its lack of voice in domestic affairs. For example, a member may be granted a change in its par value, necessitated by unwise domestic measures. Credit creation and lending policies are left to individual countries. However, domestic affairs of a member are of concern to others. The inauguration of deflationary measures by an important trader has contagious effects. A desire on the part of a country for competitive advantage and an unwillingness to forsake its sovereignty with respect to this matter are likely to handicap cooperation among members as to domestic policies, and the question arises as to whether politics can be left out of Fund decisions related to changes in exchange rates and authorization of exchange restrictions. Countries will be reluctant to relinquish their exchange controls, since these have become a political weapon as well as an economic device.

Professor Williams questions the ability of the Fund to become a major stabilizer when most international settlements

will be made outside it. Countries may save their own reserves for purchases generally detrimental to the purposes of the Fund, e.g. for military preparation. Big countries in which trade is not a major factor in their national incomes will be less concerned with the encouragement of economic measures favorable to world trade.

The Articles of Agreement do not elaborate with respect to possible recommendations on the part of the Fund to members to restore equilibrium. Professor Halm states that the Fund will probably rely on encouraging surplus countries to expand their credit and increase foreign investment and it will permit deficit countries to depreciate (although only where warranted) and permit the introduction of exchange controls, where advisable. To correct less fundamental deviations from equilibrium, the recommendations of the Fund may dwell on the use of a country's reserves of gold and foreign exchange, if any. It is doubtful if the Fund will intrude in domestic affairs relating to credit policy.

Three major obstacles to the workability of the Fund in achieving its purpose of creating a monetary structure encouraging to multilateralism are the effect of cyclical movements, the existence and significance of cartels in certain of the member countries, and the degree of harmony in general international relations. The Fund is incapable of rescuing the world from a general business crisis, such as occurred during the early 30's; its reserves can be put to use only to alleviate crises expressing short-term maladjustments. Cartels serve as

obstacles to trade, competition, output, employment, "just" prices, and division of labor. In addition, their presence may advance the interests of war rather than peace. In World War II, their technology was used for war purposes by totalitarian countries. A state in which a high level of multilateral economic relations exists presupposes a peaceful environment. However, there is no indication that the foreseeable future will be anything but a state of suspended hostility and of military preparation among powerful states.

The Fund will face certain hardships in producing an orderly depreciation of exchange rates: 1) Determination of proper exchange rates requires taking into consideration such dynamic factors as national price levels and costs. 2) In order to evaluate correctly the economic position of a member requesting a change in rate, the Fund will be dependent to a high degree on information submitted by that member. 3) The Fund must concur in a proposed change "if it is satisfied that the change is necessary to correct a fundamental disequilibrium."[1/] Selection of this single criterion leads to an oversight of the economic interrelationship among countries and the especially powerful impact of such adjustments by major traders on smaller ones. However, the Fund's inability to intervene in domestic policies obviates its right to substitute other measures.

The Articles of Agreement set up a complicated financial structure in highly general terms. Both the complexity and the generality arise from a number of factors. Since the Fund is

1/ *Articles of Agreement* of the Fund, IV, 5f

set up to operate in the transitional period, as well as beyond it, two different types of possible economic disorders are taken into consideration. The compromise nature of the Articles, in view of the variety and conflict in interests and problems represented by countries potentially making up the membership of the Fund 1/ has forced the use of much generality, in addition to certain intricacies, renders interpretation difficult.

Despite all the objections and doubts which the Fund raises, it has definite merit. It can provide a strong and, at the same time, flexible framework which would give the creditor countries benefits through increased trade and spread responsibility and risk, allowing creditors to stem dangerous inflation by a refusal to lend their currency to the Fund as a shortage appears. Deficit countries gain time to correct their maladjustments without the need for immediate introduction of deflationary measures. Furthermore, the right to use the resources of the Fund is not accompanied by such forms of domination as have accompanied private loans in the past.

The use of Fund reserves solely to cover temporary disequilibria in their balance of payments, favors the unobstructed movement of commodities, discourages unfair competition and increases domestic stability. The Fund is based on the principle of general exchange stability rather than rigidity, and it can take into account changing conditions, aiming at the same time toward the elimination of unwarranted exchange restrictions, and

1/ Examples: creditors and debtors, capitalist and planned economies, gold producers and importers, countries with a weak reserve position and with a strong, countries with and without exchange controls, [illegible]

substituting orderly for competitive exchange depreciation.

Professor Halm has pointed out that managed flexibility of exchange rates results in the following additional advantages: a) adequate flexibility in domestic policy without the necessity for large reserves; b) the avoidance of deflation without substituting expansion; c) the opportunity to reduce restrictions during the transitional period.

The Fund, as a headquarters for international collaboration and consultation, leads to an awareness on the part of members of their interdependence and permits the coordination of credit policies. Guided in its decision by the detailed information to which it has access, the Fund may induce its members to accept advice with respect to their domestic affairs, favorable to the maintenance of international equilibrium.

Because of changing conditions, the existence of factors over which the Fund has no control but which have a direct bearing on its operations, unpredictable developments, absence in its membership of countries having a strong impact on world affairs, directly and indirectly affecting the Fund, and conflicts in interests within its membership, the Fund cannot attain fully its objectives, still less set up machinery for automatic coordination of international monetary policy. However, the machinery it has set up may serve to satisfy in part the outstanding needs of our times in the field of international monetary relations.

# VII THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The second principal world agency to come out of the Bretton Woods conference was the International Bank for Reconstruction and Development, which began operations June 25, 1946.

The restoration of a system of widespread multilateral economic relations calls for a smooth and regular flow of funds. A responsibility of the Fund, with its resources for use in current transactions, is to keep currencies relatively stable. In order to accomplish this in the long run, effective measures are required to strengthen and/or restore the economies of member countries. This is the Bank's primary function, implemented by its right to extend long-term credits for productive purposes and economic stabilization. In determining the uses to which its funds will be put, the Bank will consider reconstruction and development to be equally important. Special consideration will be granted members whose "metropolitan territories have suffered great devastation from enemy occupation or hostilities."

The Bank will not take away any of the foreign loan business of commercial banks. Instead, it will for the most part encourage more such loans at less risk to the issuer. It may assume their risk by guaranteeing private loans or it may participate in loans. In certain cases, where private banks are unwilling to lend, whether because of disagreement

over rates or other conditions, the Bank may make direct loans. In any case, every loan in which the Bank has a hand must comply with certain conditions. It must be guaranteed by the member country concerned or its principal fiscal agent, and it must be approved by a competent committee appointed by the Bank. Unless for long-term stabilization, the purpose for which each loan is intended must be established as productive and capable of earning enough to cover interest and amortization costs. Finally, the Bank must receive assurance that the loan is not obtainable at reasonable terms from private sources. All loans are to be regularly amortized, and strict supervision will be maintained over the purposes to which the credits are put.

Foreign loans are of great benefit where they result in an addition to the productive resources of a country. At the same time, however, they also burden the borrower. Not only must the debtor raise the necessary money for payment of interest and amortization in domestic currency, but this must be transferred into the currency of the creditor. In order that transfers may be effected, creditors in the long run should have an excess of imports over exports; conversely, debtors require an excess of exports over imports. The safety of foreign loans depends on the reasonableness of their total amount compared to ability of a country to handle the transfer problem, as well as the reasonableness of each loan compared to the use to which it is put.

In order to encourage a high level of trade, international

loans should not be "tied loans," in which the borrower is bound to spend the proceeds in the creditor country. This type of loan leads to bilateralism and may result in economic or political domination of a weaker by a stronger country. Similarly, collection of debts should be free of exchange restrictions. The Bank's borrowing procedures are based on these principles and would enable borrowing and disbursements in the most favorable market. One exception in the Bank's adherence to multilateralism is its reluctance to make domestic loans save under exceptional circumstances.

The Bank's assets are composed of its loan portfolio, its paid-in capital, the uncalled 80% of total subscription, and other reserves. The capital stock of the Bank has been set at $10 billion, all of it to be subscribed to by members, and its value will remain stable. Guarantees, participations, and direct loans may be made up to and not exceeding 100% of unimpaired capital, reserves and surplus. Direct loans are limited to 20% of subscribed capital. Up to the present, $8.0 billion has been subscribed to, 40% of it by the United States and 16% by the United Kingdom. The size of its share determines a member country's voice in the management of the Bank and limits its obligations. Unlike the Fund, however, quotas do not determine the amount of loans or guarantees of loans which a member can arrange with the Bank.

A member whose currency is involved in any loan made by or through the Bank has the power of veto, because funds from

such loans may be converted into any currency and might serve to strain the exchange reserves of the country in whose currency the loan is made.

The Bank will deal only through the chief fiscal agencies of member countries, although it may make loans, in additions to them, to their subdivisions or to individuals or coporations within their territory. The order of the issuance of loans will depend on urgency, and all loans will take into account their general effect on the economy of the borrower.

The Bank, like the Fund, has a Board of Governors, which serves as policy-maker and whose interpretation with respect to the Articles of Agreement is final. Unlike the Fund, however, it has an advisory council representing different economic interests. The rest of the personnel is made up of twelve Executive Directors, headed by a President (currently John J. McCloy) and a staff.

Provisions are made for the submission of reports by the Bank of its operations and financial status and for the submission by loan applicants of information regarding their economic status.

Professor Williams has questioned the possibility of creating a bank which is international in any more than a formal sense, in view of the present world setup with only one major creditor and numerous debtors. Professor Halm asserts that it is international in more than a formal sense because it can provide a higher degree of financial security than could otherwise be obtained, by spreading the risk undertaken by

members, by the guarantee of a loan by a member country as well as the borrower within its territory, and by reason of one of the Bank's main purposes--the prevention of losses through making sound loans which would strengthen a country's productivity and, indirectly, its export position.

Professor Williams' pessemism is justifiable only in the case of a "world-wide credit crisis." However, Bank loans may help counter the downward trend in cyclical movements by supplementing private investment, which tends to fall off during a depression.

Success of the Bank in its operations and as a significant weight in world economic stabilization will depend to an important extent on conditions over which it has no control. If, in succeeding years, military preparedness takes on increasing importance, member countries will consider as secondary productive enterprises for peacetime use, and an interest in efficient production of peacetime goods will be replaced by whatever changes are required in their economies for strengthening wartime machinery. Furthermore, governments may devote their own monetary reserves to war preparation and borrow from the Bank for non-military purposes. Since the Bank must be guided in its decisions only by economic considerations, it can indirectly help finance production which will lead away from peaceful trade, a principle to which the Bank is dedicated.

Although the Bank may be run on a sound basis, its impact on international economic relations will depend on the magnitude

of its loans, on the extent to which its membership is composed of countries important in foreign trade and general world affairs, and on the success of other world agencies. Especially important is the degree of success achieved in the field of foreign trade policies.

# VIII SUMMARY AND CONCLUSIONS

The recognition of the importance of trade to the well-being of all participants is signified by the numerous trade agreements between countries throughout the late 19th and early 20th centuries, by the economic conferences that took place in the interwar period in an attempt to restore world trade to its previous high level, and by the intergovernmental discussions of World War II, culminating in the Bretton Woods conference, in which was developed a comprehensive system regulating governmental activity to produce an atmosphere conducive to favorable trade conditions.

Although the advisability of trade according to comparative advantage is often stressed, such a policy carried to the extreme is questionable. Some diversification is essential to add to national independence and security and to take into account the variation in stages of development, political, social, and economic, through which nations are going. In peacetime, monocultural areas traditionally have a low income due to their extreme dependence on the demands of other nations.

Because commerce is the outcome of an uneven distribution of resources, skills and climates among the countries and peoples of the world, there will always be a strong justification for nations to trade, unless impeded by restrictions imposed by governments or individuals. The effect of such measures may be a contraction of international economic relations or a partial prevention of their growth. Under such conditions, substitution

may be brought into play, uneconomic domestic production be introduced, or there may result a limitation, absolute or relative, in the consumption of goods or services.

Trade under relatively free conditions is a complementary rather than a competitive phenomenon, in which all participants theoretically benefit from most efficient production. Exceptions are underdeveloped countries foregoing the advantages of protection.

Economic stability breeds political stability, and, historically, greater industrialization has resulted in a higher standard of living. Although economic factors are not necessarily a direct cause of war, they can be a major contributing factor. Dissatisfaction that arises from deflationary conditions within a country may lead to the political support of individuals who favor a militant foreign policy or who appeal to the prejudices and intolerance of the masses, creating misunderstanding among nations or sectors of a population and may eventually lead to civil or external war.

Since the dawn of the era of mass production, industrialized countries, in order to produce economically, have had to find external outlets for disposal of their surpluses. The most efficient and complete employment of labor and resources, therefore, generally depends in the long run on stable international trade and, since there is a close tie-up between finance and trade, on investment, and on the continuity of peaceful foreign economic relations. In the long run, there is

no basis for trade unless the value of exports of goods, services and securities approximate that of imports. Loans to cover import balances serve to increase debts and only postpone a final settlement.

The world is at present faced with two separate sets of economic problems. There are, first of all, the short-term needs for rehabiliation and reconstruction to restore countries damaged by the war. This problem has been attacked partly by UNRRA, governmental loans, and outright gifts. Secondly, certain long-term adjustments must be assured in order to make extensive international economic relations possible. These include the stabilization of currencies, in relation to each other, the strengthening of economies chronically faced with an unfavorable balance of trade, the supply of adequate amounts of capital for these purposes, relief from maldistribition of gold, some relaxation in restrictions pertaining to commercial practices and exchange control, and a "settler" of balances in international payments, universally acceptable and available.

Prior to World War I, the world economy was based on a well-integrated complementary basis, due to the fact that every country had adequate outlets for its surpluses. Gold served as a balancing item in the settlement of international accounts.

By the beginning of the 1920's, the world had undergone basic changes in its economic structure. The war had produced a maldistribution of foreign exchange and gold, the

expansion of their productive capacity had created a smaller demand for agricultural products abroad, and countries were burdened with reparations, war debts, the costs of reconstruction, and inflation. The United States in the meantime had become a creditor with the result that its continued export balance increased the need for dollars, instead, as formerly, of being used to meet American obligations. Gold became an item of commerce, serving as a means of paying for imports, without producing the expectation that exports would be increased due to inflationary pressures on the credit position of the gold-receiving country.

A short-lived return to the gold standard on the part of most countries during the last half of the 20's proved unsuccessful. As they shipped gold to settle import balances, their monetary position deteriorated, forcing them to depreciate their currencies. An era of managed currencies ensued. The inelasticity of demand for the produce of agricultural countries plus greater self-sufficiency in agricultural goods on the part of industrial countries and a persistent export balance on the part of the United States finally forced deficit countries to resort to measures encouraging maximum exports and minimum imports. This policy was implemented by bilateral trading agreements, licensing systems, exchange control, higher tariffs, import quotas and the like. There eventually developed a heavy network of restrictions.

The tie between the internal and external exchange value

of currencies had been gradually pulled apart in the interwar period. In order to lessen the impact of economic disorders, with their deflationary effect, which tended to produce a curtailment in production, employment and national income, countries strengthened their central banking policy, curtailing the effect of gold on their credit structure, imposing measures controlling capital movements to prevent dangerous flights out of the country, and restricting the use of their exehange reserves to maintain an equilibrium in their balance of international payments. The outcome of governmental interference in the interwar years in commerce and capital movements was a partial breakdown in international economic relations.

In recognition of the failure of the single-handed approach of countries during the interwar period in solving their economic maladjustments, the Bretton Woods conference drafted plans to establish two permanent international institutions, enabling countries to attack jointly obstacles to more extensive commercial and monetary relations. Through the creation of the Fund, a pool of foreign exchange was made available to member countries for use in correcting maladjustments in current transactions in their balance of payments, in order to give them time to correct more basic economic maladjustments. Provision was made for orderly depreciation, where necessary, and a gradual relaxation of exchange restrictions. Through the Bank, credits were made available for investments estimated to earn enough for fixed charges and amortization and leading

to an increase in the productivity of the borrowing country.

The Fund and Bank have begun operation under definite handicaps. Their pattern of activity must be superimposed over cyclical movements over which they have no control, but the effects of which they may attempt to counter. There is no indication that the world faces an era of peace and that expenditures for military considerations will be minor. Not all countries with a major impact on general international affairs have become members of the Bretton Woods agencies, and certain of present arrangements between non-members are not conducive to an extension of multilateral trade. The Fund has no jurisdiction over the domestic policies of its membership. In place of an overall approach to such monetary questions as credit, the Fund will base its decisions on a piecemeal approach to the solution of economic problems coming under its jurisdiction.

Wise investment on the part of the Bank is imperative to the maintenance of its liquidity and the production of the degree of economic strength required by borrowers to pay off their Bank obligations, reduce the transfer problem and, indirectly, enable the Fund to carry on its duties.

The effectiveness of the Fund and Bank will depend to a considerable extent on the establishment and success of other world agencies charged with such responsibilities as the improvement of political relations among countries and the reduction of restrictive commercial practices. In turn, the

effectiveness of these agencies as well as the Fund and Bank will also depend on the importance in world relations of the countries composing their membership.

Although the obstacles to the establishment of smooth international economic relations seem almost insurmountable, members of the Bretton Woods agencies are prompted to cooperative action in financial matters by the knowledge that immobility is no policy.

# COMPREHENSIVE ABSTRACT

During World War II, governments of a number of principal countries set out to formulate plans and create machinery which would carry over into peacetime intergovernmental collaboration in various spheres of mutual interest. A prominent area of endeavor was that of international economic relations: the stabilization of par values of currencies and a gradual relaxation of exchange restrictions, provision for a regular, ordered flow of credits, and abolition or reduction of commercial practices detrimental to multilateral trade. Plans for the latter are still in the formative stage.

Before World War I, world trade and foreign monetary transactions were voluminous and multilateral in character. The gold standard provided for unimpeded movements of gold from one country to another which, with the provision for convertibility of currencies, were the main determinant of price and interest levels and, therefore, the credit structure and level of commerce within a country. Gold moving into a net exporter in payment for goods and services drove upward its general level of prices, causing domestic consumers to purchase abroad in the country undergoing deflation, as a result of shipment of its gold. Generally, this had the effect of lowering prices of the net exporter and raising those of the net importer, effecting an equilibrium.

The prosperity of this period was based on the complementary nature of the world economy, in which industrial countries

served as both standing markets for agricultural products and suppliers of industrial products necessary to the internal development of younger countries. It was an era of great expansion.

Subsequently, the world underwent basic economic changes, partly as a result of World War I, and, in 1919, the old system of automatic corrective forces in the monetary system was unworkable in most countries. There was a reduction in the degree of complementary economic relations among nations necessary to such a system. Industrial countries in quest for wartime self-sufficiency had increased their productive capacity for both industrial and agricultural products. As a result, there developed a world-wide overcapacity of agricultural products and raw materials. The sources of income of some countries had been adversely affected by the war through physical damage, liquidation of foreign securities, and a generally greater dependence on home production. The peace treaties added to the general disorder by the imposition of heavy reparations and by the break-up of economically complementary units into small nations, which immediately imposed tariffs for protection. The United States changed from a debtor to a creditor nation in the interval, and her Allies were burdened with $10 billion worth of war debts. At the same time, the United States continued to maintain a substantial export balance.

The interwar period brought no solution to the troubled

economic climate. Most countries, slow to return to the gold standard, fixed the exchange rate of their currencies at a value lower than before hostilities. There followed several years in which the gold standard in countries other than the United States was maintained substantially through the outward flow of funds of private American investors. At the same time, led by the United States, many countries imposed or increased tariff rates, resulting in some reduction in world trade.

The biggest obstacle facing most countries was the transfer problem--in order to meet their foreign obligations, they had to procure the necessary foreign exchange. Prior to the war, this was ensured through an extensive network of commercial and financial transactions. Now, however, trade was sufficiently stagnant that, without the use of foreign credits, countries were, for the most part, forced to default. This was a common occurrence after American investors stopped lending abroad in the late 20's. Reparations likewise came to an end.

By the end of the depression, most countries had depreciated their currencies and had substituted managed currencies for the gold standard. The maldistribution of gold sharpened, tariffs were supplemented by other restrictive measures, limiting the use of exchange and the degree of commerce, in both relative and absolute terms.

By the late 30's, the western world was made up largely of trading blocs, in which the currency of members was generally

linked to that of their leader, and trade was based on discrimination toward outsiders. Numerous bilateral trading agreements lowered still further the level of trade. During the 30's, the scarcity of American dollars and political uncertainty (as the 40's approached) led to a consistent flow of currency and gold into the United States. This had the tendency to make even more precarious the financial structure of countries losing their gold and dollar reserves and forced them, increasingly, to tighten measures to minimize imports.

A dramatic contrast was noticeable between international economic relations before World War I and World War II. In the interwar period, they had been subordinated to domestic policies, based on measures to offset deflationary pressures, and implemented by government regulation. Commercial and monetary transactions had been substantially reduced and tended toward bilateral arrangements.

During World War II, the United Nations collaborated in such vital spheres as military, financial and economic affairs. In this atmosphere of cooperation, plans were formulated on an intergovernmental scale to attack in peacetime obstacles that might prevent the erection of mutually beneficial multilateral economic relations. A sincere interest on the part of the United States in this matter was evidenced by the earlier passage of the Lend-Lease Act, which avoided the post-war burden of heavy new debts, whose proceeds had gone, for the most part, to unproductive uses.

The planning efforts of the United and associated Nations in the foreign economic sphere were climaxed in the Bretton Woods conference in 1944, represented by 44 countries. These drafted plans for the creation of two permanent world agencies, the International Monetary Fund and the International Bank for Reconstruction and Development, with the functions of, respectively, a) the establishment of a pool of foreign exchange and gold contributed by member countries in order to aid deficit countries to correct disequilibria in their current account in their balance of payments and to give them time to correct more basic maladjustments, the stabilization of exchange values of member currencies and the gradual elimination of exchange restrictions, and b) the provision of long-term credits to members at reasonable rates for productive purposes and stabilization in order to strengthen their productive facilities and, indirectly, their export position.

The Fund began operations in March 1947 and the Bank in June 1946. Each has a membership at present of 43 countries.

Both agencies face impressive obstacles in their operations. Although American dollars constitute a major part of its assets, the Fund has no means of ensuring an ample supply of it or any other currency beyond the initial contribution. Therefore, a solution to the problem of scarce currencies must continue to depend on domestic policies and other external factors.

In order to establish a more regular flow of credits, great care will be required by the Bank in the evaluation of the

purposes for which its capital is intended and the supervision of their use. The final tests will be the ability for these funds to earn fixed and amortization charges and the ability of the borrowing country to meet its overall transfer problem, through a favorable balance of trade.

The fact was stressed at Bretton Woods that the limited functions and powers of the two agencies would necessarily prevent them from ensuring a return to extensive multilateral trade, since this would require concerted action along still other lines. Other decisive factors over which the agencies have no control are an absence in their membership at present of countries important in affairs having a direct or indirect bearing on Fund or Bank affairs, the economic arrangements among non-members, general economic conditions, the extent to which future production and distribution is based on economic considerations for a peacetime economy rather than military and political considerations, and the success of other international bodies in fields affecting international economic relations.

# United Nations Monetary and Financial Conference

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For PARAGUAY:
N. Campos Ros

For PERU:
P. G. Beltrán

For THE PHILIPPINE COMMONWEALTH:
A Soriano

For POLAND:
Ludwik Grosfeld

For THE UNION OF SOUTH AFRICA:
S. F. N. Gie

For THE UNION OF SOVIET SOCIALIST REPUBLICS:
M. S. Stepanov

For THE UNITED KINGDOM:
Keynes

For THE UNITED STATES OF AMERICA:
Henry Morgenthau Jr.

For URUGUAY:
Mario La Gamma

For VENEZUELA:

The Venezuelan Delegation wishes to express that its signing of this Act does not imply any recommendation to its Government as to the acceptance of the documents herein contained. The Venezuelan Delegation shall present to its Government these documents for their careful examination within the broad spirit of collaboration that has always guided the acts of our Government.

Rodolfo Rojas

For YUGOSLAVIA:
Dr. Vladimir Rybář

[SEAL]

Warren Kelchner
*Secretary General*

# Annex A

## ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND

The Governments on whose behalf the present Agreement is signed agree as follows:

### Introductory Article

The International Monetary Fund is established and shall operate in accordance with the following provisions:

### Article I

#### PURPOSES

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its decisions by the purposes set forth in this Article.

## Article II

### MEMBERSHIP

Section 1. *Original members*

The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2 (e).

Section 2. *Other members*

Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

## Article III

### QUOTAS AND SUBSCRIPTIONS

Section 1. *Quotas*

Each member shall be assigned a quota. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2 (e), shall be those set forth in Schedule A. The quotas of other members shall be determined by the Fund.

Section 2. *Adjustment of quotas*

The Fund shall at intervals of five years review, and if it deems it appropriate propose an adjustment of, the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned.

Section 3. *Subscriptions: time, place, and form of payment*

(a) The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the member becomes eligible under Article XX, Section 4 (c) or (d), to buy currencies from the Fund.

(b) Each member shall pay in gold, as a minimum, the smaller of

(i) twenty-five percent of its quota; or
(ii) ten percent of its net official holdings of gold and United States dollars as at the date when the Fund notifies members under Article XX, Section 4 (a) that it will shortly be in a position to begin exchange transactions.

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Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars.

(c) Each member shall pay the balance of its quota in its own currency.

(d) If the net official holdings of gold and United States dollars of any member as at the date referred to in (b) (ii) above are not ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4 (c) or (d), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (b) above, and the balance of the member's subscription shall be paid in the member's currency, subject to appropriate adjustment between the member and the Fund when the net official holdings have been ascertained.

Section 4. *Payments when quotas are changed*

(a) Each member which consents to an increase in its quota shall, within thirty days after the date of its consent, pay to the Fund twenty-five percent of the increase in gold and the balance in its own currency. If, however, on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold.

(b) If a member consents to a reduction in its quota, the Fund shall, within thirty days after the date of the consent, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of gold as may be necessary to prevent reducing the Fund's holdings of the currency below seventy-five percent of the new quota.

Section 5. *Substitution of securities for currency*

The Fund shall accept from any member in place of any part of the member's currency which in the judgment of the Fund is not needed for its operations, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their par value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund.

## Article IV

### PAR VALUES OF CURRENCIES

Section 1. *Expression of par values*

(a) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(b) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

Section 2. *Gold purchases based on par values*

The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

Section 3. *Foreign exchange dealings based on parity*

The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

(i) in the case of spot exchange transactions, by more than one percent; and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Section 4. *Obligations regarding exchange stability*

(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

Section 5. *Changes in par values*

(a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection,

(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests,

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(d) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (c) above.

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Section 6. *Effect of unauthorized changes*

If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2 (b).

Section 7. *Uniform changes in par values*

Notwithstanding the provisions of Section 5 (b) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members, provided each such change is approved by every member which has ten percent or more of the total of the quotas. The par value of a

member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Section 8. *Maintenance of gold value of the Fund's assets*

(a) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(c) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(d) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is proposed the Fund decides otherwise.

Section 9. *Separate currencies within a member's territories*

A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2 (g). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

## Article V

### TRANSACTIONS WITH THE FUND

Section 1. *Agencies dealing with the Fund*

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

Section 2. *Limitation on the Fund's operations*

Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose

of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

Section 3. *Conditions governing use of the Fund's resources*

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

(i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;

(iii) The proposed purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred percent of its quota, but the twenty-five percent limitation shall apply only to the extent that the Fund's holdings of the member's currency have been brought above seventy-five percent of its quota if they had been below that amount;

(iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2 (a), that the member desiring to purchase is ineligible to use the resources of the Fund.

(b) A member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

Section 4. *Waiver of conditions*

The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3 (a) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

Section 5. *Ineligibility to use the Fund's resources*

Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

Section 6. *Purchases of currencies from the Fund for gold*

(a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

Section 7. *Repurchase by a member of its currency held by the Fund*

(a) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota.

(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with gold or convertible currencies, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to one-half of any increase that has occurred during the year in the Fund's holdings of its currency plus one-half of any increase, or minus one-half of any decrease, that has occurred during the year in the member's monetary reserves. This rule shall not apply when a member's monetary reserves have decreased during the year by more than the Fund's holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a member's holdings of another member's currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(c) None of the adjustments described in (b) above shall be carried to a point at which

(i) the member's monetary reserves are below its quota, or
(ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or
(iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned.

Section 8. *Charges*

(a) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay a service charge uniform for all members of three-fourths percent in addition to the parity price. The Fund in its discretion may increase this service charge to not more than one percent or reduce it to not less than one-half percent.

(b) The Fund may levy a reasonable handling charge on any member buying gold from the Fund or selling gold to the Fund.

(c) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

(i) *On amounts not more than twenty-five percent in excess of the quota:* no charge for the first three months; one-half percent per annum for the next nine months; and thereafter an increase in the charge of one-half percent for each subsequent year.
(ii) *On amounts more than twenty-five percent and not more than fifty percent in excess of the quota:* an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.
(iii) *On each additional bracket of twenty-five percent in excess of the quota:* an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(d) Whenever the Fund's holdings of a member's currency are such that the charge applicable to any bracket for any period has reached the rate of four percent per annum, the Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (c) above until they reach five percent and failing agreement, the Fund may then impose such charges as it deems appropriate.

(e) The rates referred to in (c) and (d) above may be changed by a three-fourths majority of the total voting power.

(f) All charges shall be paid in gold. If, however, the member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserves bear to one-half of its quota, and shall pay the balance in its own currency.

## Article VI

### CAPITAL TRANSFERS

Section 1. *Use of the Fund's resources for capital transfers*

(a) A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund.

(b) Nothing in this Section shall be deemed

(i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or

(ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 2. *Special provisions for capital transfers*

If the Fund's holdings of the currency of a member have remained below seventy-five percent of its quota for an immediately preceding period of not less than six months, such member, if it has not been declared ineligible to use the resources of the Fund under Section 1 of this Article, Article IV, Section 6, Article V, Section 5, or Article XV, Section 2 (a), shall be entitled, notwithstanding the provisions of Section 1 (a) of this Article, to buy the currency of another member from the Fund with its own currency for any purpose, including capital transfers. Purchases for capital transfers under this Section shall not, however, be permitted if they have the effect of raising the Fund's holdings of the currency of the member desiring to purchase above seventy-five percent of its quota, or of reducing the Fund's holdings of the currency desired below seventy-five percent of the quota of the member whose currency is desired.

Section 3. *Controls of capital transfers*

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current trans-

actions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3 (b), and in Article XIV, Section 2.

## Article VII

### SCARCE CURRENCIES

Section 1. *General scarcity of currency*

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 2. *Measures to replenish the Fund's holdings of scarce currencies*

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

(ii) Require the member to sell its currency to the Fund for gold.

Section 3. *Scarcity of the Fund's holdings*

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(b) A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more

restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(c) The authorization under (b) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. *Administration of restrictions*

Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3 (b) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. *Effect of other international agreements on restrictions*

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

## Article VIII

### GENERAL OBLIGATIONS OF MEMBERS

Section 1. *Introduction*

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. *Avoidance of restrictions on current payments*

(a) Subject to the provisions of Article VII, Section 3 (b), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(b) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, co-operate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. *Avoidance of discriminatory currency practices*

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such

arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

Section 4. *Convertibility of foreign held balances*

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

(i) that the balances to be bought have been recently acquired as a result of current transactions; or
(ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

(b) The obligation in (a) above shall not apply

(i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or
(ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or
(iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or
(iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3 (a); or
(v) when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

Section 5. *Furnishing of information*

(a) The Fund may require members to furnish it with such information as it deems necessary for its operations, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

(i) Official holdings at home and abroad, of (1) gold, (2) foreign exchange.
(ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.
(iii) Production of gold.

(iv) Gold exports and imports according to countries of destination and origin.

(v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.

(vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.

(vii) International investment position, *i. e.*, investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.

(viii) National income.

(ix) Price indices, *i. e.*, indices of commodity prices in wholesale and retail markets and of export and import prices.

(x) Buying and selling rates for foreign currencies.

(xi) Exchange controls, *i. e.*, a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.

(xii) Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(b) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable, and, so far as possible, to avoid mere estimates.

(c) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

### Section 6. *Consultation between members regarding existing international agreements*

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties

to such engagements will consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

## Article IX

### STATUS, IMMUNITIES AND PRIVILEGES

Section 1. *Purposes of Article*

To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2. *Status of the Fund*

The Fund shall possess full juridical personality, and, in particular, the capacity:

(i) to contract;
(ii) to acquire and dispose of immovable and movable property;
(iii) to institute legal proceedings.

Section 3. *Immunity from judicial process*

The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4. *Immunity from other action*

Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. *Immunity of archives*

The archives of the Fund shall be inviolable.

Section 6. *Freedom of assets from restrictions*

To the extent necessary to carry out the operations provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. *Privilege for communications*

The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

Section 8. *Immunities and privileges of officers and employees*

All governors, executive directors, alternates, officers and employees of the Fund

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity.

(ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members.

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. *Immunities from taxation*

(a) The Fund, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to executive directors, alternates, officers or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held

(i) which discriminates against such obligation or security solely because of its origin; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10. *Application of Article*

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

## Article X

### RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII.

## Article XI

### RELATIONS WITH NON-MEMBER COUNTRIES

Section 1. *Undertakings regarding relations with non-member countries*

Each member undertakes:

(i) Not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;

(ii) Not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

(iii) To cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

Section 2. *Restrictions on transactions with non-member countries*

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

## Article XII

### ORGANIZATION AND MANAGEMENT

Section 1. *Structure of the Fund*

The Fund shall have a Board of Governors, Executive Directors, a Managing Director and a staff.

Section 2. *Board of Governors*

(a) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

- (i) Admit new members and determine the conditions of their admission.
- (ii) Approve a revision of quotas.
- (iii) Approve a uniform change in the par value of the currencies of all members.
- (iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).
- (v) Determine the distribution of the net income of the Fund.
- (vi) Require a member to withdraw.
- (vii) Decide to liquidate the Fund.
- (viii) Decide appeals from interpretations of this Agreement given by the Executive Directors.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(f) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

(g) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(h) Governors and alternates shall serve as such without compensa-

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tion from the Fund, but the Fund shall pay them reasonable expenses incurred in attending meetings.

(i) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the Managing Director.

Section 3. *Executive Directors*

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be not less than twelve directors who need not be governors, and of whom

(i) Five shall be appointed by the five members having the largest quotas;
(ii) Not more than two shall be appointed when the provisions of (c) below apply;
(iii) Five shall be elected by the members not entitled to appoint directors, other than the American Republics; and
(iv) Two shall be elected by the American Republics not entitled to appoint directors.

For the purposes of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they become members in accordance with Article XX or in accordance with Article II, Section 2. When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

(c) If, at the second regular election of directors and thereafter, the members entitled to appoint directors under (b) (i) above do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

(d) Subject to Article XX, Section 3 (b) elections of elective directors shall be conducted at intervals of two years in accordance with the provisions of Schedule C, supplemented by such regulations as the Fund deems appropriate. Whenever the Board of Governors increases the number of directors to be elected under (b) above, it shall issue regulations making appropriate changes in the proportion of votes required to elect directors under the provisions of Schedule C.

(e) Each director shall appoint an alternate with full power to act for him when he is not present. When the directors appointing them are present, alternates may participate in meetings but may not vote.

(f) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the members who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(g) The Executive Directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(h) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5 (b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

(j) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(k) The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

Section 4. *Managing Director and staff*

(a) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

(c) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of his functions.

(d) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. *Voting*

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above, adjusted:

(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(c) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8 (d) of that Article.

(d) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

Section 6. *Distribution of net income*

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(b) If any distribution is made, there shall first be distributed a two percent non-cumulative payment to each member on the amount by which seventy-five percent of its quota exceeded the Fund's average holdings of its currency during that year. The balance shall be paid to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

Section 7. *Publication of reports*

(a) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its transactions and its holdings of gold and currencies of members.

(b) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

Section 8. *Communication of views to members*

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an executive director, it shall be entitled to representation in accordance with Section 3 (j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

## Article XIII

### OFFICES AND DEPOSITORIES

Section 1. *Location of offices*

The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. *Depositories*

(a) Each member country shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(b) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Directors may

transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. *Guarantee of the Fund's assets*

Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

## Article XIV

### TRANSITIONAL PERIOD

Section 1. *Introduction*

The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2. *Exchange restrictions*

In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Section 3. *Notification to the Fund*

Each member shall notify the Fund before it becomes eligible under Article XX, Section 4 (c) or (d), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Section 4. *Action of the Fund relating to restrictions*

Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years

after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2 (a).

Section 5. *Nature of transitional period*

In its relations with members, the Fund shall recognize that the post-war transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

## Article XV

### WITHDRAWAL FROM MEMBERSHIP

Section 1. *Right of members to withdraw*

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. *Compulsory withdrawal*

(a) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

(b) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(c) Regulations shall be adopted to ensure that before action is taken against any member under (a) or (b) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. *Settlement of accounts with members withdrawing*

When a member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.

## Article XVI

## EMERGENCY PROVISIONS

Section 1. *Temporary suspension*

(a) In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

(i) Article IV, Sections 3 and 4(b)
(ii) Article V, Sections 2, 3, 7, 8 (a) and (f)
(iii) Article VI, Section 2
(iv) Article XI, Section 1

(b) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(c) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(d) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

Section 2. *Liquidation of the Fund*

(a) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Fund may be necessary, they may temporarily suspend all transactions, pending decision by the Board.

(b) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under

this Agreement shall cease except those set out in this Article, in Article XVIII, paragraph (c), in Schedule D, paragraph 7, and in Schedule E.

(c) Liquidation shall be administered in accordance with the provisions of Schedule E.

## Article XVII

### AMENDMENTS

(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);
(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);
(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5 (b)).

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

## Article XVIII

### INTERPRETATION

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director it shall be entitled to representation in accordance with Article XII, Section 3 (j).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board the Fund may, so

far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

## Article XIX

### EXPLANATION OF TERMS

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following:

(a) A member's monetary reserves means its net official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify.

(b) The official holdings of a member means central holdings (that is, the holdings of its Treasury, central bank, stabilization fund, or similar fiscal agency).

(c) The holdings of other official institutions or other banks within its territories may, in any particular case, be deemed by the Fund, after consultation with the member, to be official holdings to the extent that they are substantially in excess of working balances; provided that for the purpose of determining whether, in a particular case, holdings are in excess of working balances, there shall be deducted from such holdings amounts of currency due to official institutions and banks in the territories of members or non-members specified under (d) below.

(d) A member's holdings of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangements under Article XIV, Section 2, together with its holdings of the currencies of such non-members as the Fund may from time to time specify. The term currency for this purpose includes without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months.

(e) A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members or non-members specified under (d) above, together with

similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (d) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (c) above.

(f) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

(g) The Fund, after consultation with a member which is availing itself of the transitional arrangements under Article XIV, Section 2, may deem holdings of the currency of that member which carry specified rights of conversion into another currency or into gold to be holdings of convertible currency for the purpose of the calculation of monetary reserves.

(h) For the purpose of calculating gold subscriptions under Article III, Section 3, a member's net official holdings of gold and United States dollars shall consist of its official holdings of gold and United States currency after deducting central holdings of its currency by other countries and holdings of its currency by other official institutions and other banks if these holdings carry specified rights of conversion into gold or United States currency.

(i) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

(1) All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;
(2) Payments due as interest on loans and as net income from other investments;
(3) Payments of moderate amount for amortization of loans or for depreciation of direct investments;
(4) Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

## Article XX

### FINAL PROVISIONS

Section 1. *Entry into force*

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2 (a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. *Signature*

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period the signature affixed on behalf of that gov-

ernment shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with regard to each signatory government as from the date of its signature.

Section 3. *Inauguration of the Fund*

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member having the largest quota shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries for which the largest quotas are set forth in Schedule A shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule C and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

Section 4. *Initial determination of par values*

(a) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (d) below shall apply.

(b) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (a) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale

prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period determined by the Fund in the light of all relevant circumstances, agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(c) When the par value of a member's currency has been established under (b) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(d) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (b) above shall apply, subject to the following modifications:

(i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.

(ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.

(iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (a) above.

(e) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (d) (i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (d) above shall apply.

(f) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5 (c).

(g) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2 (g) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. On the basis of the par value so communicated,

the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (a), (b) or (d) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (d) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

(h) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(i) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

(j) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2.

DONE at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

## *SCHEDULE A*

## Quotas

| | (In millions of United States dollars) | | (In millions of United States dollars) |
|---|---|---|---|
| Australia | 200 | India | 400 |
| Belgium | 225 | Iran | 25 |
| Bolivia | 10 | Iraq | 8 |
| Brazil | 150 | Liberia | .5 |
| Canada | 300 | Luxembourg | 10 |
| Chile | 50 | Mexico | 90 |
| China | 550 | Netherlands | 275 |
| Colombia | 50 | New Zealand | 50 |
| Costa Rica | 5 | Nicaragua | 2 |
| Cuba | 50 | Norway | 50 |
| Czechoslovakia | 125 | Panama | .5 |
| Denmark* | * | Paraguay | 2 |
| Dominican Republic | 5 | Peru | 25 |
| Ecuador | 5 | Philippine Commonwealth | 15 |
| Egypt | 45 | Poland | 125 |
| El Salvador | 2.5 | Union of South Africa | 100 |
| Ethiopia | 6 | Union of Soviet Socialist Republics | 1200 |
| France | 450 | United Kingdom | 1300 |
| Greece | 40 | United States | 2750 |
| Guatemala | 5 | Uruguay | 15 |
| Haiti | 5 | Venezuela | 15 |
| Honduras | 2.5 | Yugoslavia | 60 |
| Iceland | 1 | | |

*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

## *SCHEDULE B*

## Provisions With Respect to Repurchase by a Member of Its Currency Held by the Fund

1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7 (b) shall be made with each type of monetary reserve, that is, with gold and with each convertible currency, the following rule, subject to 2 below, shall apply:

(a) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

(b) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.

(c) If after all the repurchases required under Article V, Section 7 (b), had been made, the result would exceed any of the limits specified in Article V, Section 7 (c), the Fund shall require such repurchases to be made by the members proportionately in such manner that the limits will not be exceeded.

2. The Fund shall not acquire the currency of any non-member under Article V, Section 7 (b) and (c).

3. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (b) and (c), no account shall be taken, unless deductions have otherwise been made by the member for such holdings, of any increase in those monetary reserves which is due to currency previously inconvertible having become convertible during the year; or to holdings which are the proceeds of a long-term or medium-term loan contracted during the year; or to holdings which have been transferred or set aside for repayment of a loan during the subsequent year.

4. In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

## *SCHEDULE C*

## Election of Executive Directors

1. The election of the elective executive directors shall be by ballot of the governors eligible to vote under Article XII, Section 3 (b) (iii) and (iv).

2. In balloting for the five directors to be elected under Article XII, Section 3 (b) (iii), each of the governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5 (a). The five persons receiving the greatest number of votes shall be directors, provided that no person who received less than nineteen percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

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3. When five persons are not elected in the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected, and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above twenty percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above twenty percent of the eligible votes the twenty percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until twenty percent is reached.

5. Any governor part of whose votes must be counted in order to raise the total of any person above nineteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed twenty percent.

6. If, after the second ballot, five persons have not been elected, further ballots shall be held on the same principles until five persons have been elected, provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

7. The directors to be elected by the American Republics under Article XII, Section 3 (b) (iv) shall be elected as follows:

(a) Each of the directors shall be elected separately.

(b) In the election of the first director, each governor representing an American Republic eligible to participate in the election shall cast for one person all the votes to which he is entitled. The person receiving the largest number of votes shall be elected provided that he has received not less than forty-five percent of the total votes.

(c) If no person is elected on the first ballot, further ballots shall be held, in each of which the person receiving the lowest number of votes shall be eliminated, until one person receives a number of votes sufficient for election under (b) above.

(d) Governors whose votes contributed to the election of the first director shall take no part in the election of the second director.

(e) Persons who did not succeed in the first election shall not be ineligible for election as the second director.

(f) A majority of the votes which can be cast shall be required for election of the second director. If at the first ballot no person receives a majority, further ballots shall be held in each of which the person receiving the lowest number of votes shall be eliminated, until some person obtains a majority.

(g) The second director shall be deemed to have been elected by all the votes which could have been cast in the ballot securing his election.

## *SCHEDULE D*

## Settlement of Accounts With Members Withdrawing

1. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in gold, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or by the delivery of gold.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in gold or, at its option, in the currencies of members which at the time of redemption are convertible. Redemption shall be made at the parity existing at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the par value of its currency on the date of withdrawal and the value realized by the Fund on disposal under 4 and 5 above.

7. In the event of the Fund going into liquidation under Article XVI, Section 2, within six months of the date on which the member withdraws, the account between the Fund and that government shall be settled in accordance with Article XVI, Section 2, and Schedule E.

## *SCHEDULE E*

### Administration of Liquidation

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

(a) the currency in which the liability is payable;
(b) gold;
(c) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

(a) The Fund shall distribute its holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas. These members shall share the gold so distributed in the proportions of the amounts by which their quotas exceed the Fund's holdings of their currencies.
(b) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty percent of its quota.
(c) The Fund shall apportion the remainder of its holdings of each currency among all the members in proportion to the amounts due to each member after the distributions under (a) and (b) above.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2 (c) above, and shall agree with the

Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (c) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in gold or, at its option, in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the par value of its currency on the date of the decision to liquidate the Fund and the value realized by such members on disposal of its currency.

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